IMPACT OF THE ECONOMIC ENVIRONMENT ON THE ZIMBABWEAN INSURANCE INDUSTRY

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Table 1: Global Economic Outlook

	2020	2021	2022	2023	2024	2025
World	-3.0	6.0	3.2	2.7	3.2	3.4
Advanced economies	-4.4	5.2	2.4	1.1	1.6	1.9
United Kingdom	-9.3	7.4	3.6	0.3	0.6	2.3
United States	-2.5	-2.6	-4.8	-4.5	-4.0	-3.7
European Union	-5.6	5.4	3.2	0.7	2.1	2.2
Emerging market & Developing Economies	-1.9	6.6	3.7	3.7	4.3	4.3
China	2.2	8.1	3.2	4.4	4.5	4.6
India	-6.6	8.7	6.8	6.1	6.8	6.8
Sub-Saharan Africa	-1.6	4.7	3.6	3.7	4.1	4.2
Nigeria	-1.8	3.6	3.2	3.0	2.9	2.9
South Africa	-6.3	4.9	2.1	1.1	1.3	1.4

Source: IMF (2022)

- The global economy has been hit by overlapping crisis, that is, the Russia/Ukraine crisis when the severity of COVID-19 pandemic had softened. The global economic outlook is anticipated to slowdown due to elevated inflation pressures, tightening global financial conditions associated with expectations of steeper interest rate hikes by major central banks and the negative spillover effects from the Russia-Ukraine crisis. Furthermore, impact of pandemic related lockdowns and supply chain disruptions continue to disrupt economic activity in some regions. Resultantly, the following indicators are anticipated:
- The IMF October 2022 projects global economy to grow by 3.2% in 2022, slowing down from 6% recorded in 2021.
- Global GDP growth for 2023 is projected to continue to slow down to 2.7% and average 3.3% over the medium term, the weakest growth profile since 2001.
- The Sub-Saharan region is projected to grow by 3.6%, in 2022 and slightly improving to 3.75 in 2023 (see table 1).

Table 2: Global Inflation Rate (%)

Country Group Name	2020	2021	2022	2023	2024	2025
World	3.2	4.7	8.8	6.5	4.1	3.6
Advanced economies	0.7	3.1	7.2	4.4	2.4	2.0
United Kingdom	0.9	2.6	9.1	9.0	3.7	1.8
United States	1.2	4.7	8.1	3.5	2.2	2.0
European Union	0.5	2.4	5.6	4.0	2.3	2.1
Emerging market & Developing Economies	5.1	5.9	9.9	8.1	5.3	4.6
China	-0.3	1.8	2.7	1.8	1.9	2.0
India	4.9	6.3	6.4	4.9	4.2	4.1
Sub-Saharan Africa	10.2	11.1	14.4	11.9	8.6	7.3
Nigeria	13.2	17.0	18.9	17.3	12.6	11.5
South Africa	3.3	4.6	6.7	5.1	4.7	4.5

Source: IMF (2022)

- With respect to inflation, the global economy faces high inflation, last seen in decades due to economic, geopolitical tensions and ecological impacts. Inflation in advanced economies reached its highest rate since 1982 at 7.2% (see table 2).
- Global inflation is expected to be 6.6% on a quarter-over-quarter basis, reflecting the pass-through effects of energy prices, supply chain cost pressures, and tight labor markets, especially in advanced *economies.*
- With respect to international price developments, international prices have been substantially increasing in 2021 and 2022 with fertilisers and energy leading in the cumulative increase. Going forward, prices are projected to remain higher than the 2020 levels, though stabilising in 2023 and 2024 (see table 3). This development would remain favorable for Zimbabwe because the country's growth is largely driven by primary commodities.
- However, higher oil and fertilizers have negative impact on the domestic economy

Domestic Economic Developments: The Economic Dashboard

- *The state of the economy is characterised by the following fundamentals:*
- *Runaway national budget, that is, from $8.1 billion in 2019 to $1.9 trillion in 2022;*
- *Budget deficit as evidenced by the Auditor General report where Ministry of Finance spend in excess of $6.7 billion and $100.2 billion unauthorised expenditure in 2019 and 2020, respectively;*
- *Worsening national debt which has reached US$18.73 billion according to the IMF recent report on Zimbabwe published in April 2022.*
- *Runaway inflation which stands at 268.8% (annual inflation) in October down from 280% and 285% in September 2022 and August 2022, respectively.*
- *Runaway exchange rates with parallel market rate hovering around ZWL$820 against US$1 while the official exchange rate is around ZWL$632 against US$1. Ironically, when the 2022 budget was presented in November 2021 the official exchange rate was ZWL$85 against US$1.*
- *Worsening poverty levels with the population in extreme poverty having reached 7.9 million people, that is, 49% of the population.*
- *In the same vein, the consumer basket for a family of five has shot to ZWL$275,000 for the month of September 2022 at a time when the lowest paid civil servants is earning ZWL$35,000 with an additional US$200.*
- *On a positive note, the following were noted:*
  - *The current account surplus is envisaged to close the year 2022 at US$366.3 million, which favourably compares to US$348.2 million that the country registered in 2021, largely driven by secondary income.*
  - *Foreign currency receipts increased by 32.4% to US$8.4 billion as at 30 September 2022, from US$6.1 billion in 2022 during the same period, spurred by increases in agriculture, mineral and manufactured exports.*

Domestic Economic Developments

- *The economy is now projected to grow by 4.6% during 2022, a downward revision from the original 5.5% projection, and follows an estimated 7.8% positive growth trajectory for 2021. This positive 2022 growth projection is supported by increased activity in all the productive sectors except agriculture that was weighed down by the unfavourable 2021/22 rainfall season and high input costs.*
- *In the outlook, the economy is projected to continue on the growth trajectory, with an expected growth of 5% during 2023. This growth is expected to benefit from:*
  - *the favourable international commodity prices,*
  - *stable macroeconomic environment (ironically CPI 100.7%) ; and*
  - *improved production in all sectors of the economy.*

Grounded Root Causes

- *Massive distortions/subsidies across many commodities ranging from gold coins, forex, agricultural inputs, services such as power, etc;*
- *Structural challenges – drought of production caused by both external shocks such as drought, Russia/Ukraine crisis, COVID-19 and casino economy;*
- *Policy inconsistency and draconian policies such as suspending ZSE, suspension of lending, shutting down Ecocash, etc*
- *Corruption;*
- *Toxic political environment*

SDR – Misplaced Priorities

Sector	Priority Area	Allocations (US$m)	Drawdown (US$m)
1. Investment in Social Sectors	Support on Vaccination Programme	77	77
	Construction of health infrastructure	35	0
	Support for health consumables & equipment	10	0
	Construction of education infrastructure	10	0
	Agricultural Social Protection (Peri-Urban Agriculture)	80	80
Agriculture Support	Export revolving fund (horticulture)	30	0
	Smallholder irrigation schemes	20	0
Industry Support	Retooling/Revolving Fund for following value chains:		
	Cotton	10	0
	Leather	10	0
	Pharmaceuticals	5	0
	Other agro-processing	5	0
Infrastructure	Road rehabilitation and Mbudzi Roundabout	144	144
	Housing Development	10	0
	Gold Centres	10	10
	Contingency Fund	222	0
	International Foreign Currency Reserves	280	0
Total		958	311

The allocation and utilization of SDR funds shows drought of funding to the industry which is key in economic transformation and attainment of vision 2030

Review Revised Budget & Supplementary Budget – see areas in red (budget bursts and also received large supplementary budget while in yellow are starved with financial resources)

Vote Appropriations	Budget	Expenditure to 30 June	Utilisation (%)	Additional Budget	2022 Revised Budget
Office of the President & Cabinet	32,391.20	35,823.00	111	47,155.60	79,765.00
Parliament of Zimbabwe	14,615.10	4,877.90	33	2,800.70	17,415.80
Public Service, Labour and Social Welfare	19,477.30	9,654.10	50	34,897.40	54,374.80
Defence and War Veterans	61,553.30	46,345.70	75	71,515.60	133,068.90
Finance and Economic Development	64,573.60	48,192.20	75	127,673.70	176,617.50
Auditor General	3,041.10	534.50	18	1,059.60	4,073.70
Industry and Commerce	3,879.50	1,768.70	46	1,662.50	5,542.10
Lands, Agriculture, Fisheries, Water & Rural Development	124,049.10	98,997.30	80	100,672.00	231,819.00
Mines and Mining Development	3,020.90	1,769.70	59	1,582.50	4,603.50
Environment, Tourism and Hospitality	3,711.40	1,711.70	46	3,624.60	7,335.90
Transport and Infrastructure Development	60,802.50	29,881.30	49	46,507.40	107,309.90
Foreign Affairs and International Trade	14,877.30	3,193.00	21	3,848.00	18,725.30
Local Government and Public Works	24,315.30	13,069.00	54	12,743.40	37,058.70
Health and Child Care	117,714.20	31,819.10	27	62,210.50	179,924.70
Primary and Secondary Education	124,070.00	54,808.80	44	103,924.50	228,994.50
Higher & Tertiary Education, Innovation, Sci & Tech Dvpt	35,774.20	16,144.10	45	35,036.10	70,810.40
Women Affairs, Community, SMEs Development	4,734.50	2,374.10	50	3,139.00	7,873.50
Home Affairs and Cultural Heritage	49,417.60	32,159.20	65	61,077.10	115,493.70
Justice, Legal and Parliamentary Affairs	22,705.10	11,118.70	49	18,187.10	40,892.20
Information, Publicity and Broadcasting Services	2,652.70	738.90	28	1,012.80	3,665.50
Youth, Sport, Arts and Recreation	7,844.10	3,689.90	47	3,788.60	11,632.60
Energy and Power Development	3,553.90	2,823.70	79	2,369.70	8,183.60
ICT and Courier Services	3,294.60	1,274.90	39	4,793.70	8,088.20
National Housing and Social Amenities	10,061.50	2,392.60	24	6,894.70	16,956.20
Judicial Services Commission	5,445.80	4,177.60	77	3,083.00	8,583.60
Public Service Commission	22,572.10	18,103.40	80	48,800.00	71,552.10
National Council of Chiefs	671.00	281.90	42	500.00	1,171.00
Zimbabwe Human Rights Commission	403.90	330.60	82	527.40	931.30
National Peace and Reconciliation Commission	441.30	330.60	75	390.40	831.70
National Prosecuting Authority	1,629.30	938.10	58	1,518.30	3,147.50
Zimbabwe Anti-Corruption Commission	913.70	517.40	57	351.40	1,265.10
Zimbabwe Electoral Commission	11,632.80	9,547.80	82	32,693.50	44,326.30
Zimbabwe Gender Commission	497.60	172.90	35	507.30	1,004.90
Zimbabwe Land Commission	1,759.30	1,175.80	67	4,688.40	6,447.70
Zimbabwe Media Commission	511.00	181.00	35	238.20	749.20
Sub Total	**852,032.60**	**490,793.10**	**58**	**851,474.80**	**1,703,507.40**
Constitutional & Statutory Budget					
Debt Service: Interest Bill	14,367.00	3,487.40	24	3,000.00	17,367.00
Pension	47,641.50	31,572.70	66	62,628.90	110,270.40
Transfers to Provincial Councils and Local Authorities	42,539.00	7,143.30	17	10,000.00	52,539.00
Other Constitutional & Statutory Appropriations	4,960.30	1,510.20	30	2,149.80	7,110.10
Total Expenditure & Net Lending	**968,268.50**	**534,506.60**	**55**	**929,253.50**	**1,897,522.00**

Commentary on Revised Budget & Supplementary Budget

- *In terms of budget performance, by mid-year, the Ministry of Finance and Economic Development should have distributed 50% of budget votes across all ministries, departments and agencies (MDAs). However, as shown in previous table, government departments and line ministries highlighted in yellow (see table in previous slide) have been starved of resources as they utilised below 50%. Of great concerns are the Ministries of Health and Child Care and Ministry of Foreign Affairs and International Trade which respectively are failing to deliver basic health and meet foreign obligations (including staff salaries at our missions abroad.*
- *Ironically, in a manner that reinforce my argument on the drought of political will on government procurement system, the following departments and Ministries exceeded their 50% budget threshold as follows: Office of the President and Cabinet (111%), Ministry of Finance and Economic Development (75%), Ministry of Lands, Agriculture, Water, Fisheries, Climate and Rural Development (80%) and Defence and War Veterans (75%) (see rows marked in red in table 4.1). In addition, the same departments and Ministries were awarded massive supplementary budgets.*
- *With this new budget, with about ZWL$1.22 trillion budget, which will be distributed to government service providers one can only expect the exchange rate to run away until the ZWL goes into extinction.*
- *Again, of interest to the working class, the Minister of Finance and Economic Development doubled the tax free threshold, that is, from ZWL$25,000 to ZWL$50,000. This adjustment is too low – one would have expected that Honourable Minister of Finance and Economic Development could have raised the tax free threshold to around ZWL$150,000 so as to move in line with the consumer basket for a family of five which has just hit ZWL140,000 for the month of July 2022 and shot to ZWL$275,000 in September 2022.*

Government Intervention/Stabilisation Measures

- *As part of measures aimed at stabilising the economy, he reaffirmed measures announced by the Government of Zimbabwe in May and June 2022 which were meant to instil confidence, strengthen demand for local currency and foster market discipline as follows:*
  - *Re-affirmation on the restoration of lost value by compensating depositors who were affected by currency reforms implemented in 2019;*
  - *Commitment to clear the foreign auction backlog and ensure that all new foreign currency allotments are settled within two weeks and that the auction system only allots foreign currency available;*
  - *Continuation of partial dollarisation (multi-currency system), while working towards managed de-dollarisation process, informed by economic fundamentals;*
  - *Improvement in the exchange rate management system through orderly unification of the auction system and the interbank market rate in order to facilitate market price discovery;*
  - *Allowing Retail/ Wholesale Pricing to use the interbank foreign exchange rate with a maximum allowable variance of 10%.*
  - *Foreign currency tax obligations to be settled at interbank exchange rate;*
  - *Review of capital markets regulations to curb speculative tendencies, as well as foster market discipline;*
  - *Entrenching the multi-currency system and inter-bank market exchange rate through legislation for the NDS1 period;*
  - *Minimise the impact of international fuel and grain price increases on the domestic economy;*

Government Intervention/Stabilisation Measures

- *Upwards review of the policy rate to discourage speculative borrowing;*
- *Introduction of a limit on the number of days for holding foreign currency by exporters to enhance circulation in the economy;*
- *Introduction of Gold Coins as an alternative store of value;*
- *Started work on the formalisation of forward market of foreign currency.*
- *The recent hike in the Bank policy rate from 80% to 200% is meant to curtail speculative demand for credit in the economy, which has been the main driver of broad money expansion.*
- *Use of the IMTT, that is, 2% and 4% tax on transactions in USD*

A Quick Review of the Policy Measures

1. The Gold Coins

Whilst gold coins present an attractive investment opportunities on the back of existing arbitrage opportunities, their impact on exchange rate and inflation will is expected to be insignificant because of the following factors:

- *The country has competing interest between the desire to earning forex by exporting gold and selling them locally with a view to rein the in exchange rate spiral & inflation – in view of the country don't have enough gold to mop out excess liquidity;*
- *The budget framework which has set aside ZWL$1.22 trillion for expenditure targeting capital and recurrent (excluding salaries) is the real threat to economic stability as this money will be used by government service providers to buy forex in the parallel market – no amount of money can defeat the menace caused by the rot in the procurement system;*
- *Gold coins are for the rich and not for the poor – they are out of reach*

2. Interest rate hikes not Panacea either!

- *The use of interest rate as an effective instrument aimed at slowing down speculative behaviour is highly questionable at two levels:*
- *First, the current statistics from the Reserve Bank of Zimbabwe shows that, as at 31 March 2022, 77.7% of total bank loans were earmarked for the productive sector as follows: agriculture (25.61%), manufacturing (11.6%), distribution (11.46%), commercial (7%), mining (6.27%), mortgage (5.06%), communication (4.77%), financial (3.76%), transport (1.61%) and construction (0.60%). In line with this evidence, which has been consistent in the last four years, it is clear that the 200% interest rate is killing both business and the consumers. In view of this, in my humble view, even though the Minister of Finance and Economic Development seemed to "suggest" further interest rate hikes, if looks a disastrous path to take considering how this is weighing down of the sustainability of businesses and also aiding in ramping up inflation since interest rate are a cost push factor. Is the RBZ prepared to raise interest rate to go above inflation and maintain positive real interest rate? Impossible!*
- *Second, the major source of money supply is coming from treasury. For example, the current national budget shows that 36% of the budget is earmarked towards civil servants salaries and the remainder, that is, 64% is split between capital and the recurrent expenditure (which excludes salaries). So, if we consider the current of ZWL$1.9 trillion, it means that ZWL$1.216 trillion (that is, 64% of the total budget) will be disbursed to government service providers who will are insulated from interest rates even if the RBZ decides to raise interest rates to 10 million % as this money will be dished to them at no cost through tenderpreneurship. This precisely explains why in Zimbabwe interest rates are ineffective in addressing macroeconomic instability. Rather, the more raise the interest rates we kill the goose which lays the eggs whilst at the same time impoverish the general public.*

3. Entrenching the multi-currency system and inter-bank market exchange rate through legislation for the NDS1 period

- *Previously, the Government of Zimbabwe issued statutory instrument 127 which compelled economic agents to use formal exchange rates dictated by the auction system.*
- *This instrument carried punitive measures to offenders which included jail term and fines. The SI 127 failed dismally because excessive exchange rate disparities.*
- *Now, because government directed economic agents to use the interbank market rate as official exchange rate, treasury issued SI 118A of 2022 whose main aim is to enforce the use of official exchange rate. Like SI 127, it also carries penalties.*
- *Because exchange rate disparities still exist, in equal magnitude, the SI 118A, as already witnessed has failed to enforce the use of official exchange rate.*

4. The 2% and 4% Tax on USD Transactions

- *The 2% and 4% taxes on USD transactions was instituted to promote the use of ZWL.*
- *However, the policy measure is working against formalization of USDs in the banking sector and entrenching dollarization.*
- *Put simply, there is no business case for economic agents to bank the USDs because one will be punished through taxes something which will not happen when transacted informally.*

Possible Remedies

In addressing the economic crisis, there is need for the Government of Zimbabwe to consider the following:

- *Expedite the establishment of the Value for Money Unit. The Value for Money Unit can be a game changer in eradicating rampant abuse of government funds which is key in stabilising the economy if and only if, the Government of Zimbabwe, through the Office of the President and Cabinet demonstrate high political will in ensuring that the Unit carries its mandate as expected. The following measures are key to support currency stability:*
  - *Encouragement of competitive bidding;*
  - *Fostering exchange rate convergence with a view to discourage FX arbitrage;*
  - *Payment of service providers on time with a view to discourage use of forward exchange rates;*
  - *Use of market system development in agriculture and long term finance in long term infrastructure;*
- *There is need for government to remove distortions in foreign exchange and gold markets by liberalising the exchange rates. For avoidance of doubt, as long as there are distortions, it is clear that any policy prescribed around the same market will fail.*
- *The Government of Zimbabwe must place emphasis on the commodity exchange as an effective vehicle for financing and market of agricultural commodities as opposed to the current arrangement where the financing and marketing of agricultural commodities is largely in the hands of government.*
- *Going forward, with respect to infrastructure financing, government must consider innovative funding models for long term infrastructures (roads, dams, etc) such as public private partnerships, diaspora bonds and use of pensions funds. This will reduce the burden on government whilst at the same time reduces the current abuses of government funds which is fuelling the parallel market rate.*

Possible remedies

- *In dealing with Russia/Ukraine crisis, robust policy measures which inter alia include following:*
  - *Ramping up local fertiliser production (using SDR funds) is urgent and critical since the price of fertilisers have shot up by 100% as a result of the Russia/Ukraine crisis,*
  - *Further reduction of duty on fuel from 30% to say 20% will be key in stabilising inflation;*
  - *Liberalisation of agricultural markets with a view to open up the space of value chain actors. In this regard, government must disband command agriculture and reinforce the role of the commodity exchange.*
- *As the country is facing the watershed 2023 elections, there is need to reduce toxic political environment.*
- *Structural policies centred on industrial, agricultural and trade policies are key.*

The False Economic Stability

- In recent weeks, the Ministry of Finance and Economic Development issued a circular to line ministries, departments and agencies whose effect was to halt payment as government sought to enforce value for money. Because the Ministry of Finance and Economic Development is the chief culprit on macroeconomic instability (see box 3.2), the runaway exchange rate stabilised. Can we say that we have found a formula on macroeconomic instability? The answer is NO. The following factors will renew exchange rate spiral:
- The budget factor, with this new budget, with about ZWL$1.22 trillion budget which will be distributed to government service providers, one can only expect the exchange rate to run away;
- Command agriculture and pfumvudza, the proposal by the Ministry of Lands, Agriculture, Water, Fisheries, Climate and Rural Development to increase households on government agricultural support schemes from 1.8 million to 3.5 million. This will result in massive exchange rate spikes as service providers will have an enlarged envelope to use in the parallel market. Ironically, government is targeting to support 3.5 million households when ZIMSTAT figures shows that the country has 2.5 million households. The question which arises is who will utilise the resources for the extra 1 million households? There are high chances that these resources will be abused and the impact of such abuses will be transmitted through the exchange rate instability and inflation;
- Low salaries – at the current levels where the lowest paid civil servant earns ZWL$35,000 and US$200, there are risks that civil servants will push for salary adjustments with a view to cope with the cost of living. If government succumb to pressure and pays civil servants in ZWL, the rate will run away. However, if government increase the civil servants' USD salaries component only, as noted in September 2022, this will have no effect to both exchange rate and inflation. Ironically, if government take this move, it will sustain the liquidity crunch and entrench full dollarization.
- Election fever, the country is already in the election mood. The election mood comes with risks associated with excessive spending as already witnessed:
  - A staggering supplementary budget of ZWL$929 billion;
  - Increasing households under pfumvudza by 100% to 3.5 million (ironically when ZimStat figures shows that total households are around 2.2 million);
  - Rural Development 8.0 – government will be splashing money in eight areas: (1) Presidential Rural Development Programme (Horticulture); (2) Presidential Blitz Tick Grease Scheme; (3) Presidential Cotton Scheme; (4) Presidential Community Fisheries Scheme; (5) Presidential Climate Proofed Input Scheme; (6) Local Inventions and Innovations; (7) Presidential Goat Scheme; and (8) Presidential Poultry Scheme.
- Sustained use of short term finance on long term infrastructure – contractors requires USD on their daily work. Hence, the temptation to source the USD on the black market will always be there even though the Ministry of Finance and Economic Development enforces value for money

The Economic Outlook

- *The economic outlook remains gloomy and dire. The following economic fundamentals are expected to emerge, the 2023 economic/business assumptions:*
- *Inflation spikes averaging 400%;*
- *Exchange rate spikes hitting ZWL$1,500/US$1;*
- *Drive towards 100% dollarization*
- *This economic outlook is confirmed by statistics from the Ministry of Finance and Economic Development budget framework and economic projections. To be specific, the Ministry of Finance and Economic Development presented the following stylised facts:*
  - *Proposed 2023 budget of ZWL3.4 trillion up by 79% from 2022 budget of ZWL$1.9 trillion (after supplementary budget);*
  - *Nominal GDP of ZWL$19 trillion for 2023 up by 90% from ZWL$10 trillion in 2022;*
  - *Annual average inflation of 100.7% in 2023;*
  - *Anticipated economic growth of 5% in 2023*
- *The fact that the budget outturn is expected to be ZWL$3.4 trillion (79% increase) and national output is expected to be ZWL$19 trillion when the economic growth is expected to be 5% gives a clear explanation that these increases are as a result on inflation. This therefore confirms my view that the 2023 fiscal year is gloomy. From the stylised facts from the Ministry of Finance and Economic Development one can deduce that the inflation figures will be around 100%. However, it is a fact that for the last four (4) years, the Ministry of Finance and Economic Development has spectacularly failed to predict its economic indicators, that is the budget and inflation. In all the cases, government has exceeded its budgets by more than 100% (more than 2 times).*

Zimbabwe GDP Growth (%): 2020-2025

Sectors	2021	2022	2023	2024	2025
Agriculture, Hunting and Fishing and forestry	17.5	-5.0	6.7	6.3	5.1
Mining and quarrying	5.9	9.5	6.2	6.0	5.6
Manufacturing	1.2	3.6	3.7	4.2	5.0
Electricity, gas, steam and air conditioning supply	33.9	12.2	5.2	4.6	3.9
Water supply; sewerage, waste management and remediation activities	12.7	4.7	8.7	5.4	5.1
Construction	3.5	10.5	5.8	5.0	4.0
Wholesale and retail trade; repair of motor vehicles and motorcycles	8.1	5.9	4.5	6.3	6.8
Transportation and storage	8.5	2.9	4.2	5.4	5.2
Accommodation and food service activities	38.5	50.0	18.6	16.2	6.8
Information and communication	9.8	5.3	4.1	4.6	4.8
Financial and insurance activities	3.0	5.2	7.0	7.6	6.6
Real estate activities	4.1	6.1	8.9	11.6	6.3
Professional, scientific and technical activities	-3.1	4.2	2.0	2.4	2.9
Administrative and support service activities	14.6	2.0	2.0	1.9	1.9
Public administration and defence; compulsory social security	5.3	4.0	0.3	1.0	1.0
Education	5.8	4.8	2.3	1.7	2.4
Human health and social work activities	18.6	1.5	2.7	2.4	2.4
Arts, entertainment and recreation	14.0	3.1	1.3	2.4	1.6
Other service activities	-2.8	1.2	1.2	1.2	1.2
Domestic Services	2.3	0.4	0.1	0.3	0.2
Overall GDP Growth Rates	8.5	4.6	5.0	5.4	5.2

Although the projected economic outlook looks fairly realistic, the projection on agricultural sector is questionable since the country is expected to witness normal to below normal rains in key farming regions, that is, region 1 & 2. In addition, the high cost of doing business in the agricultural sector mainly as a result of the devastating effects of the Russia/Ukraine crisis coupled with domestic economic hardships are expected to weigh down on the performance of the 2022/23 agricultural season. As a result of the foregoing observation, chances of a negative economic growth in the agricultural sector are highly possible. If this happens, this will reduce the overall economic growth to around 3%.

The following are headwinds will define the Economic Outlook:

- *Liquidation of the 40% export retention and 20% domestic export retention – RBZ religiously print money since it has no reserves of foreign currency nor budget support to finance these liquidations. This will drive up money supply which will drive exchange rate and inflation.*
- *Runaway exchange rate and inflation spiral – aided by the budget (that is, the ZWL$1.22 trillion, in particular);*
- *The proposal by the Ministry of Lands, Agriculture, Water, Fisheries, Climate and Rural Development to increase households on government agricultural support schemes from 1.8 million to 3.5 million (in the context where fertilisers & chemicals have surged by +150%). This will result in massive exchange rate spikes as service providers will have an enlarged envelope to use in the parallel market – we should see rates going up as we are entering the farming season;*
- *In addition, the liquidation of gold coins is expected to drive up money supply – it is clear that at the time of maturity, gold coins will result in surge in money supply since they will be sold at a rate that is higher than their buying rate. For example, if gold coins which were bought at a rate of ZWL$400/US$1 will be sold at a rate of ZWL$632/US$1, that is, +50% increase in money supply.*
- *Toxic political environment remains a serious threat on the economic outlook;*
- *Russia and Ukraine crisis whose shocks has been transmitted through increases in fuel prices, agricultural inputs especially fertilisers and food, remains a real challenge for the country. So far government's response to the Russia/Ukraine crisis has been through removal of levies of fuel;*
- *Drought – evidence from Metrological Services Department shows that regions 3 – 5 will receive normal to above normal rains while regions 1 & 2 will receive normal to below normal especially in critical planting and planting growing stages.*
- *This spells doom for the 2022/23 farming season. From macroeconomic perspective, this will result in increase in imports of food items and raw materials required by industry thereby exacerbating pressure on the exchange rate and inflation.*

The Economic Outlook: What is the Future of the ZWL

- *This is an important question. Do we see ZWL in the long term? To answer this question, let us answer the following questions:*
  - *What do you make of the sustained increase of imports when total amount of foreign allocated at the auction floor took a sustained decline from around US$42 million per week to US$25 million, US$22 million, US$13 million and finally US$11 million (as at 27 October 2022)? Answer: it means that companies are generating their own foreign currency – the economy has dollarised.*
  - *What do you make of the decision by the Ministry of Finance and Economic Development to pay its workers in USD in January 2022 (under COVID-19 allowance) and later introduced part payment in USD100 in March 2022 and finally increased civil servants salaries by US$25 in September 2022, that is, taking total payment to US$200/month? Answer: Government of Zimbabwe has no trust in its own currency. In addition, the Government of Zimbabwe knows that its currency can't be used as a store of value and medium of exchange.*
  - *What do you make of the decision by the Ministry of Finance and Economic Development to pay contractors 50% of their invoices in USD? Answer: Government of Zimbabwe has no trust in its own currency. In addition, the Government of Zimbabwe knows that its currency can't be used as a store of value and medium of exchange.*
  - *What do you make of the decision by the Government of Zimbabwe to flatly refuse ZWL for passports payment? Answer: Government of Zimbabwe has no trust in its own currency. In addition, the Government of Zimbabwe knows that its currency can't be used as a store of value and medium of exchange.*
  - *What do you make of the recent developments where businesses have started paying service providers in USD and have requested to pay government taxes in USD? Answer: the economy has dollarized.*
  - *In view of the foregoing observation, it is quite clear that the economy has dollarized. We still have the ZWL as a currency of convenience as it is helping economic actors to meet certain tax obligations and salaries but it is on its way out. In view of this, in the short term, we expect inflation and exchange rates to continue to spike to 400% and ZWL$1500/US$1, respectively. In medium term we fully dollarize inflation and exchange rate will be a single digit and 1:1 respectively.*
  - *Government can only bring back ZWL to life if it take a deliberate approach to collect all its taxes in ZWL only whilst at the same time pay all service providers and civil servants in ZWL only.*

The Economic Outlook: What is the Future of the ZWL

- *Can we say that we have found a formula on macroeconomic instability? The answer is NO. The following factors will renew exchange rate spiral:*
  - *Funding of USD under export retention – for every 40% export retention on exports and 20% on domestic export retention is funded by ZWL printed by the RBZ – this is fueling money supply which will drive up the exchange rate.*
  - *The budget factor, with this new budget, with about ZWL$1.22 trillion budget which will be distributed to government service providers, one can only expect the exchange rate to run away;*
  - *Command agriculture and pfumvudza, the proposal by the Ministry of Lands, Agriculture, Water, Fisheries, Climate and Rural Development to increase households on government agricultural support schemes from 1.8 million to 3.5 million. This will result in massive exchange rate spikes as service providers will have an enlarged envelope to use in the parallel market;*
  - *Low salaries – at the current levels where the lowest paid civil servant earns ZWL$35,000 and US$200, there are risks that civil servants will push for salary adjustments with a view to cope with the cost of living. If government succumb to pressure and pays civil servants in ZWL, the rate will run away. However, if government increase the civil servants' USD salaries component only, as noted in September 2022, this will have no effect to both exchange rate and inflation. Ironically, if government take this move, it will sustain the liquidity crunch and entrench full dollarization.*
  - *Election fever, the country is already in the election mood. The election mood comes with risks associated with excessive spending as already witnessed:*
    - *A staggering supplementary budget of ZWL$929 billion;*
    - *Increasing households under pfumvudza by 100% to 3.5 million (ironically when ZimStat figures shows that total households are around 2.2 million);*
    - *Rural Development 8.0 – government will be splashing money in eight areas: (1) Presidential Rural Development Programme (Horticulture); (2) Presidential Blitz Tick Grease Scheme; (3) Presidential Cotton Scheme; (4) Presidential Community Fisheries Scheme; (5) Presidential Climate Proofed Input Scheme; (6) Local Inventions and Innovations; (7) Presidential Goat Scheme; and (8) Presidential Poultry Scheme.*
  - *Sustained use of short term finance on long term infrastructure – contractors requires USD on their daily work. Hence, the temptation to source the USD on the black market will always be there even though the Ministry of Finance and Economic Development enforces value for money.*

Implications of the Economic Developments on the Insurance Sector

- The Insurance sector in Zimbabwe, like any sector suffered massive losses and erosion of capital on the back of macroeconomic instability. The following are key highlights:
    - 14 November 1997, that is, the black Friday which saw the Zimbabwe dollar crushing;
    - The decade long economic decline (1998 – 2008) which saw the inflation levels of 82.7 sextrillion percent and the death of ZWL;
    - The 2009 – 2013 period of economic stability which brought in renewed hope as the country embraced hope and several investment were made in USD including various insurance products under the assumption that the USD is here to stay;
    - November 2016 the Government of Zimbabwe introduced bond note which was 1:1 with the USD as export incentives;
    - Between 2013 and 2018 the Government of Zimbabwe ran massive budget deficits which were financed by RBZ at levels exceeding the statutory limits of 20%. Likewise, the insurance sector was compelled to buy TBs under prescribed asset status under the assumptions that TBs are risk free asset – as documented in the books of finance but alas TBs in Zimbabwe became risk assets;
    - On 20 February 2019, the Government of Zimbabwe disbanded 1:1 which effectively means that all savings in USD were lost;
    - On 25 June 2019, the Government of Zimbabwe banned USD and introduced ZWL;
    - On 31 March 2020 - Present, the Government of Zimbabwe reintroduced USD through a circular issued by RBZ compelling businesses to accept USDs;
- All these developments have negatively affected the insurance industry and its clients – in the process we have lost the opportunity to use the insurance sector as a long term/patience finance;
- Unfortunately, the drama is still unfolding and there is no light at the end of the tunnel.

Business Takeaway

- *In view of the risks ahead the following are recommended:*
  - *Internal devaluation – massive cost cutting and cost rationalization*
  - *Building foreign currency reserves – by following the USD from the informal sector and exports*
  - *Undertake defence strategies – minimizing expansion as they results in high costs especially in view of dollarization, high interest rate and taxes*
  - *Engage/lobby government on:*
    - *The need for credible, predictable and sound policies which guarantees sustainable growth*
    - *Tax reforms – removal of IMTT (2% and 4% taxes);*
    - *Removal of 20% domestic export to reduce money supply*
    - *Reducing export retention to 20% to reduce money supply*
    - *Reduction of interest rate to 80 - 100%*