THE CHAMBER OF MINES

OF ZIMBABWE

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Economic Review

August 2021

Key Highlights

Economic growth +7.8%

Exports growth +21%

Inflation -86%age points

Exchange Rate -4%

SDR US$961 million

Introduction

Government, in the recently announced 2021 Mid-Term Budget Review revised upwards economic growth projections for 2021 to 7.8%, anchored on strong agriculture outturn and a stable macroeconomic environment. Most of macroeconomic indicators seem to be on track with inflation having been on a downward trend, shedding 86 percentage points since January 2021 to settle at 50.2% by August 2021. Export earnings increased by 21% in the first six months ending June 2021 compared to the same period last year, while fiscal budget recorded a surplus in excess of ZWL571 billion in the six months to June 2021. Despite export growth, the local unit, has however, continued to depreciate against the US dollar on both the auction and parallel markets. The auction rate depreciated by 4% in the eight months to August 2021 while parallel market premiums have continued to widen, estimated at around 70% as at end of August 2021. There has been some renewed hope for exchange rate stability in the short term after Government received Special Drawing Rights amounting to US$961 million which the Minister of Finance, through a communique released on 24 August 2021, indicated that the SDR will also be used to support domestic currency and foreign reserves. Meanwhile, the country's covid management framework has received positive comments across the region. The covid management framework and vaccination programme adopted by Government have resulted in decline in rates of infection. The country's vaccination rate, at 27% is considered one of the highest in Sub-Saharan Africa. Continuation on the right path of the vaccination programme will make sure most of the economic sectors will remain functional during the pandemic.

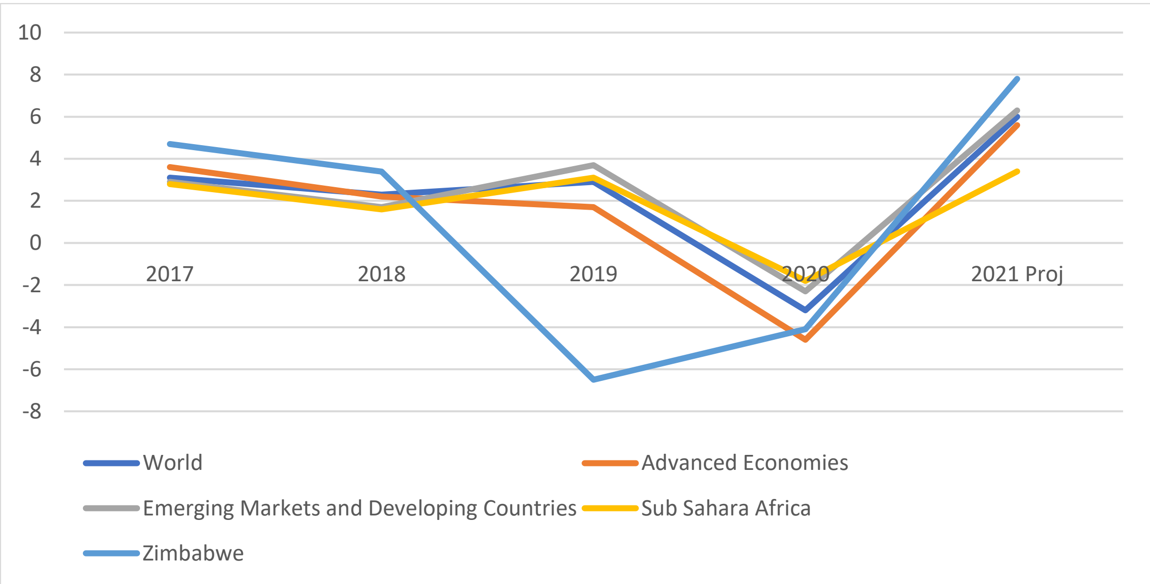
Will the SDR Injection spur the economy?

The SDR fund amounting to US$961 million recently received by Government from IMF has generated a lot of debate on how the funds should be deployed to benefit the country. The SDR fund comes at a time most productive sectors are operating below capacity as exchange rate volatility continue to undermine macroeconomic stability. The Government, through a communique released by the Minister of Finance on 24 August 2021 outlined priorities to which the SDR funds will be used for. Key among the priorities is support to social sectors (health, education, and the vulnerable group}, productive sectors (including agriculture and mining); infrastructure investment (including roads and housing); and foreign currency reserves and contingency fund to support domestic currency and macroeconomic stability. While all the areas mentioned by the Minister of Finance in the communique require resources, the Government must adopt a prudent approach in the deployment of the fund to achieve high economic and social spin offs. It is common understanding that the biggest challenge facing the country is foreign exchange volatility and thus most people have tugged domestic currency and foreign exchange reserves as one of the areas to receive attention from the SDR fund. It is our view that by allocating sufficient resources to fund the export sector will create the necessary impetus for export growth and foreign exchange inflows which are precursors for sustainable exchange rate stability. The growth in export earnings will further create necessary foreign exchange feedstock to support foreign exchange reserves as well as meet all future medium term import requirements for the economy. Thus, the utilisation of the fund must ensure a balance between immediate needs as a well a creating a sound base for long term self-sustaining, revolving and growing foreign exchange supply base.

Global economic rebound to spur commodity prices

In the eight months to August 2021 global economic activities have been improving, largely benefitting from widened fiscal support and monetary accommodation by major economies. The injection of Special Drawing Rights amounting to US$650 billion into the world economy by the International Monetary Fund (IMF), is expected to trigger stimulus packages across economies with positive spinoffs to the outlook for the global economy. Further, the widespread vaccination programmes which have reduced the severity and frequency of infections of the COVID-19 pandemic have revived the economies. The International Monetary Fund now projects a global growth of 6% in 2021. India (9.5%), China (8.1%) and the US (7%) are among key global economies that are expected to underpin global recovery in 2021. Sub-Sahara Africa is projected to rebound by 2.8%, after contracting by 2.4% in 2020.

Global growth and outlook (%)



Source: IMF, Ministry of Finance and Economic Development

Commodity prices on a recovery path

Reopening of key global economies in the first half of 2021 spurred demand for commodities with positive spinoffs on metal prices. Most mineral commodities recorded price increases in the period under review. The outlook for metal prices is bullish, on the back of anticipated global economic recovery in 2021.

Monthly Average Metal Prices

	Jan – June 2021	Jan – June 2020	Annual Average Proj
Gold	1,807	1,647	1,800
Platinum	1,180	858	1,200
Palladium	2,616	2,180	2,600
Nickel	17,484	12,460	17,500
Copper	9,095	5,490	10,000
Chrome Ore/ ton	34	70	60

Source: Kitco, World Bank

In the outlook, commodity prices are expected to remain favourable underpinned by a strong global economic recovery. This presents opportunities for most commodity driven economies to recover from the yester year economic down turns. Zimbabwe is poised to benefit if it addresses the challenges affecting the growth potential of the mining sector.

Zimbabwe economic recovery underpinned on agriculture

Government statistics released in the 2021 Mid Term Budget Review Statement indicate that the economy is on a recovery path with the Ministry of Finance revising upwards economic growth projection for 2021 to 7.8%, from the initial projection of 7.4% on the back of a strong agriculture outturn and anticipated improvement in other productive sectors including manufacturing and electricity and energy. All sectors are expected to record positive output growth in 2021. Buttressing the forgoing, the International Monetary Fund, in June 2021 also reported positive prospects for the economy in 2021, with a growth forecast of 6%. The recent injection of US$961 million SDR allocation has given Government a lifeline to address public social demands while also resolving structural bottlenecks that continue to weigh down the performance of some sectors of the economy which did not achieve full potential in the first half. All hope is left to prudent utilisation of the SDR fund towards priority areas with high economic and social impacts.

2021 Economic growth projections

Sector	2020	2021 Initial Projection	2021 Revised Projections
Real GDP Growth	**-4.1%**	**7.4%**	**7.8%**
Agriculture	*-0.2%*	*11.3%*	*34%*
Mining	*-4.7%*	*11%*	*2%*
Manufacturing	*-9.6%*	*6.5%*	*7%*
Construction	*2.5%*	*7.2%*	*7.7*
Electricity and water	*-7.9%*	*18.8%*	*13.9%*

Source: Ministry of Finance and Economic Development

Downside risks to the outlook

It is important to note that the Zimbabwean economy is recovering from two successive years of negative growth, and hence still fragile. There is strong need for supportive policies to sustain growth potential by addressing structural bottlenecks dodging the real sector including inadequate foreign currency for importation of inputs for production, unreliable infrastructure and electricity shortages as well as improve competitiveness of the business operating environment to reduce costs of doing business and attracting investment. Government must remain on the check for new covid variants to ensure minimum business disruptions from the covid pandemic.

Good rains spur Agriculture recovery

Government input support schemes including Pfumvudza had positive impacts on the outturn for cereal crops. The good rainfall pattern in the summer cropping season complemented by Government strong input support schemes resulted in increases in output across most crop diversity. Maize output increased to a record 2.7 million tons in 2021 since 1984 while tobacco output increased to 195 million kg in 2021, compared to 189 million kg in 2020. Meanwhile, Government is intensifying support for the winter wheat programme which is expected to enhance wheat output for 2021. Wheat output is projected at 280,000 tons in 2021, compared to 212,000 tonnes in 2020. Reflective of the above, the Minister of Finance revised upwards agriculture growth for 2021 to 34%, from initial projection of 11%.

2021 Selected Crop Production

	2021	2020	All time peak
Maize (000) tons	2,717	927	2,950 (1984)
Tobacco (million kg)	195	184	260 (1998) 258 (2019)
Soyabean (000) tons	80	47	180,404 (2007)
Wheat (000) tons	280	212	325 (1990)

Source: Ministry of Finance and Economic Development

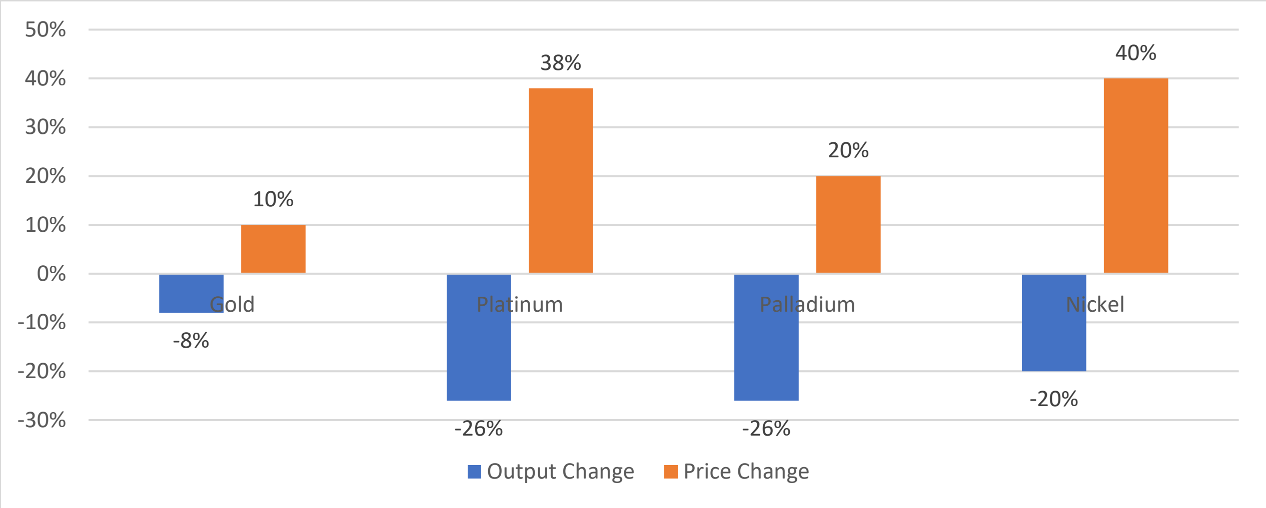
While the agriculture outturn is very positive, the country has scope to achieve full potential that has been realised in previous years. The current irrigation rehabilitation programme, which has seen Government spending around 72% of the allocated funds in the first half of 2021 on various irrigation programmes will assist in drought proofing agriculture in the medium to long term. The outlook for the agriculture sector remains positive with anticipated favourable rainfall season for the 2021/ 2022 season while Government has also promised to avail inputs timeously.

Capacity utilisation in the manufacturing sector on the rise

The Confederation of Zimbabwe Industry the CZI is projecting average capacity utilisation to increase to 61% in 2021, from the 47% in 2020 basing on the following assumptions: continued macroeconomic stability, low inflation, stable exchange rate and availability of agro-raw materials from the good agriculture season, provision of essential economic enablers such as electricity and water and improving the efficiency of the forex auction. The Minister of Finance has since revised upwards manufacturing growth for 2021 to 7%, from the original 6.5%. It is our view that despite increased capacity most of the manufacturing entities continue to experience intermittent shortages of imported raw materials and other critical equipment due to delays in accessing adequate supplies of foreign exchange. There is also need for Government to introduce measures to promote resuscitation of closed companies and attracting new investments in the manufacturing sector to increase the availability of locally produced products and enhance import substitution.

Mineral output fail to respond to favourable prices – 'boom prices, gloomy output'

Mineral prices and output changes, January – June 2021



Source: Ministry of Mines, Chamber of mines

Despite attractive mineral prices, the mining sector continue to operate below capacity amidst covid induced challenges, inadequate foreign exchange allocations, high cost of production, loss of value of the surrender portion of export earnings, suboptimal marketing arrangements for gold, capital shortages and fragile electricity supply specifically for mining companies not connected to dedicated power lines. These constraints limited the capacity of the mining sector to take full advantage of firming mineral prices, with most key minerals, recording output declines in the first half of 2021, compared to same period in 2020. Cognisant of the challenges facing the mining sector, Government acknowledged the challenges and simply revised downwards mining sector growth from the original 11%, to 2%.

Mineral output performance

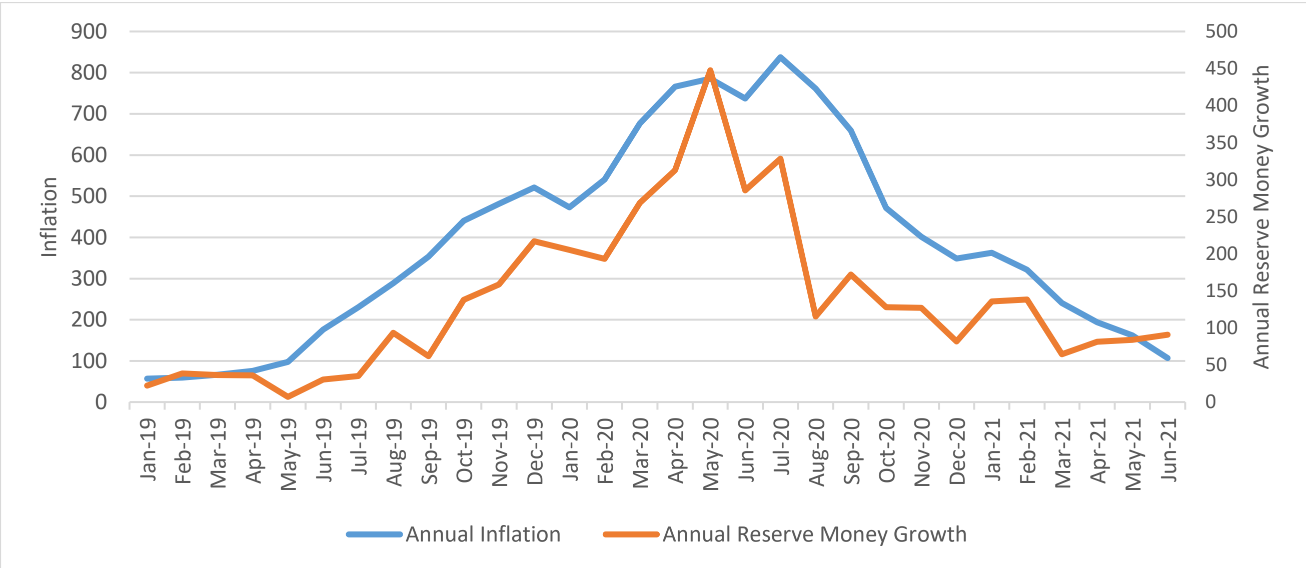
	Jan – June 2021	Jan – June 2020	% Change
Gold (kgs)	10,670.08	11,559.76	**-8%**
Platinum (kgs)	5,943.11	8,004.67	**-26%**
Palladium (kgs)	4,979.06	6,736.59	**-26%**
Diamonds (cts)	1,022,905.00	1,544,839.69	**-34%**
Chrome (MT)	300,925.69	704,452.60	**-57%**
Nickel (MT)	6,180.83	7,754.32	**-20%**
Coal (MT)	1,377,699.45	1,433,106.78	**-4%**
Lithium (MT)	23,026.00	13,355.90	**72%**

The mining sector outlook remains challenging

The outlook for the mining sector remains weak as the obtaining structural bottlenecks including foreign exchange constraints and power shortages, are expected to persist in the second half of 2021. In the absence of supportive measures specifically upward review in forex retentions and adequate power supply, most key minerals are expected to record output declines in the full year 2021, compared to 2020.

Inflation trending downwards as Reserve Money Growth falls

2021 Annual inflation and annual reserve money

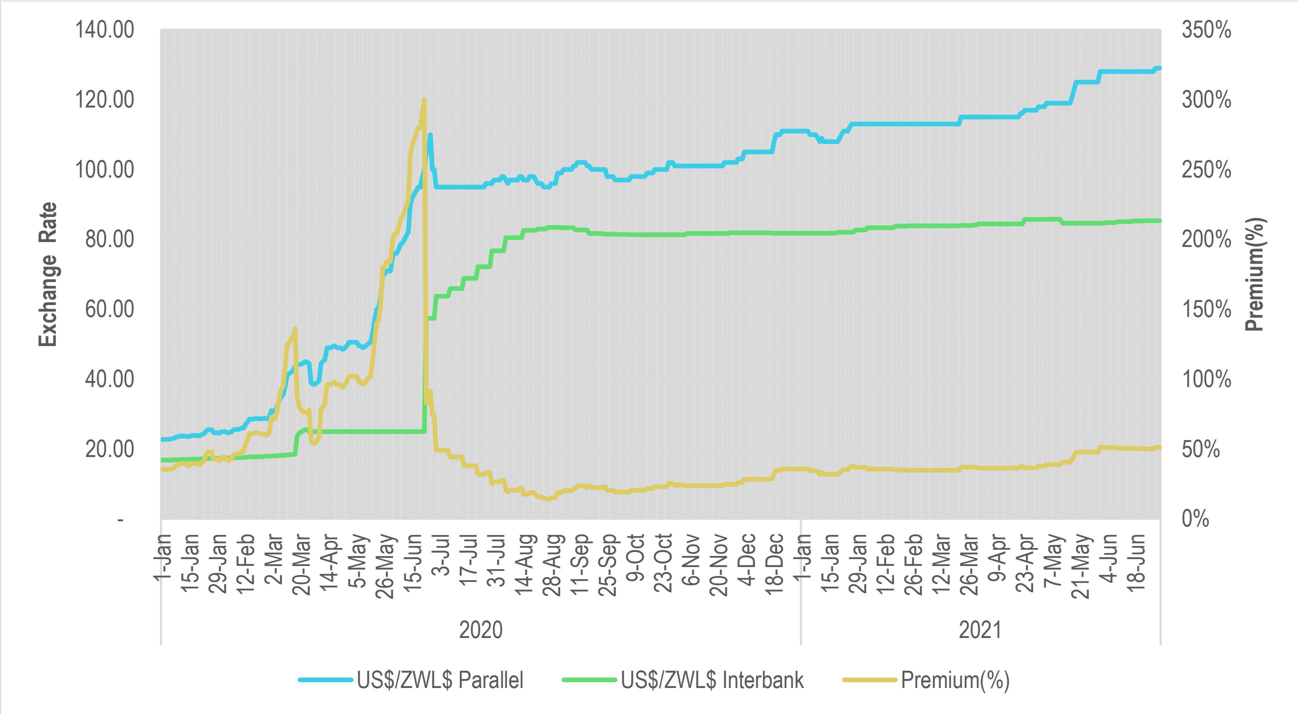


Source: Zimstat and RBZ

The country experienced progressive dissipation of inflation pressures in the 8 months to August 2021 with annual inflation falling from 362.6% in January 2021, to 106.6% in June 2021. Month – on – month inflation remained in the single digit level, and declined from 5.4% in January 2021, to 4.1% in August 2021. Key to the positive inflation outturn was the restrictive monetary policy that has been adopted by RBZ. The Reserve Bank of Zimbabwe has largely implemented a tight monetary policy stance which has put money supply under check during the period under review. To reinforce this policy stance, RBZ reduced its quarterly reserve money target from 22.5% to 20% while reviewing interest rates upwards to curtail consumptive borrowing and credit creation. Quarterly reserve money growth has averaged 22.5% in the first half of 2021 which has remained in line with RBZ targets. In the outlook, inflation developments will continue to be influenced by money supply and exchange rate dynamics with Government projecting inflation to close the year at around 25%. We are of the view that RBZ will continue with the tight monetary policy framework and the inflation target of 25% by year end is achievable. This targeted inflation is, however, above the SADC convergence target of 5%.

Exchange rate depreciates as parallel market exchange premiums widen

Auction and Parallel Market Exchange Rates



Source: Ministry of Finance and Economic Development

The foreign exchange auction system traded thin during the period under review, characterised by allotment backlogs undermining the capacity of productive sectors to secure adequate inputs for production. Reflecting the above, the Country's official auction rate depreciated by about 4% from 81.8 at the beginning of January 2021, to 85.9 by end of August 2021. On the contrary, the alternative exchange rate depreciated by around 40% for the comparable periods. The alternative market premium continues to widen and is estimated at above 70% by end of August 2021. While the anticipated growth in reserve money will continue to put pressure on the local unit, it is our view that the deployment of some of the SDR fund to clear allotment backlogs on the auction market and beefing up reserves will in the short term restore stability on the foreign exchange market. In the medium term, however, the sustainability of the foreign exchange stability will depend on the performance of the external sector specifically the growth of export proceeds. We thus, urge Government to introduce policies and incentives that support the growth of the export sector. The ongoing re-engagement of international financial institutions will also unlock cheap capital which will further improve stability in the foreign exchange market.

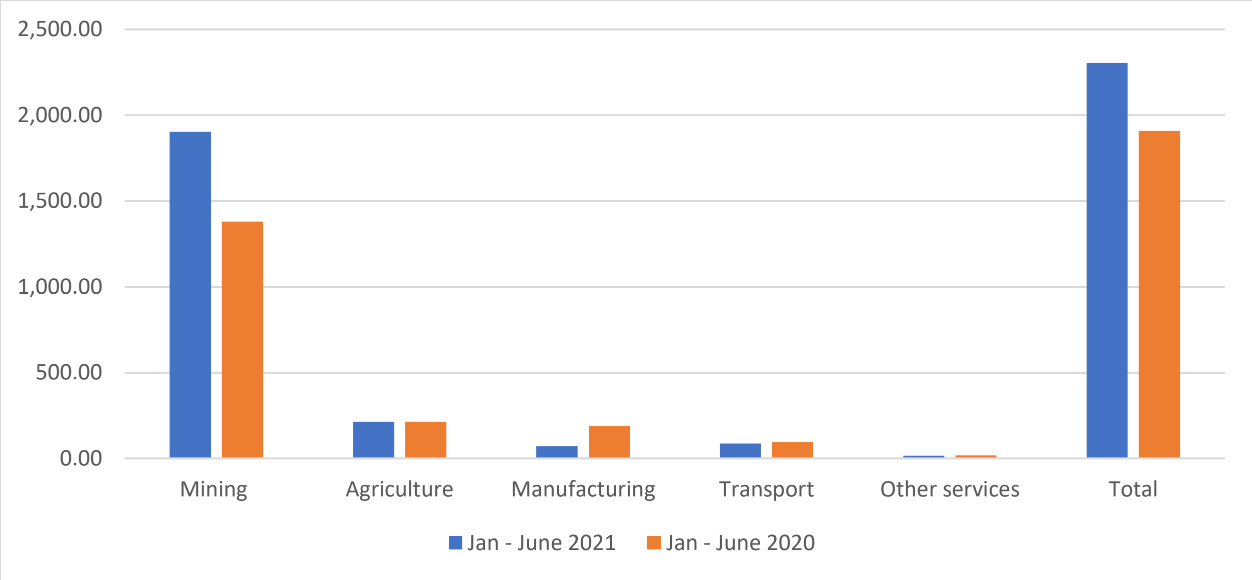
Trade deficit declines as export earnings improve

The country's external sector position remained relatively strong in the first half of 2021 on the back of strong real sector performance, continued monetary restraint and fiscal consolidation. The strong global economic recovery is simultaneously strengthening international commodity prices with potentially positive knock-on effects on Zimbabwe's external position. While the country experienced deficits in the trade balance in the first half of the year, the deficits have been progressively declining on the back of strong export performance. Total exports increased to US$2.3 billion in the first half of 2021, compared to US$1.9 billion in the same period in 2020, with mineral exports at US$1.9 billion accounting for 82% of total export earnings. Foreign currency receipts for the first half of 2021 amounted to US$4.02 billion, compared to US$3.12 billion received over the same period in 2020.

Trade balance Jan – May (2020 and 2021)

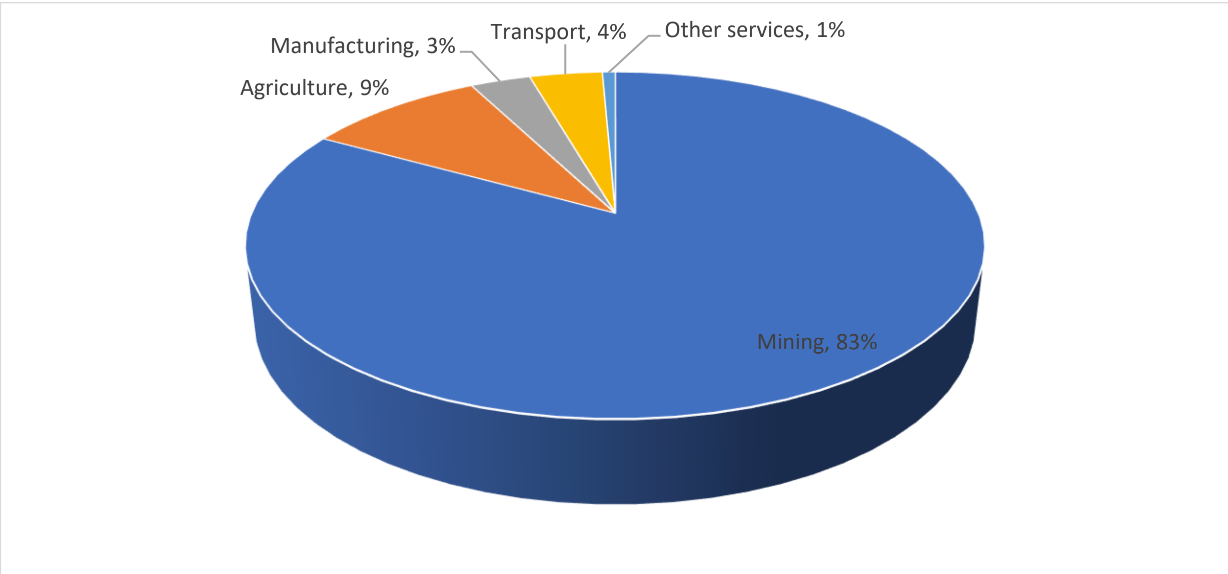
Source: Ministry of Finance, RBZ

Jan – June Export Receipts by sector (million)



Source: RBZ

Distribution of export receipts



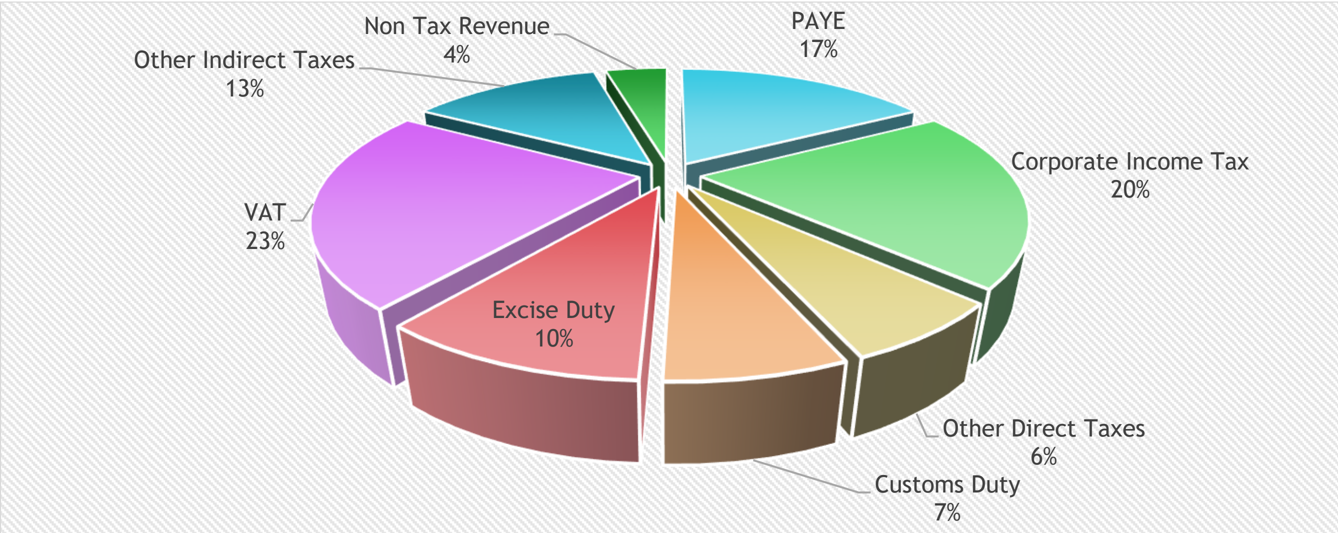
Source: RBZ

While the performance of the external sector was generally encouraging, the strong export performance was driven by firming prices which more than offset output declines. The country's external position is vulnerable to global commodity price downturns in the absence of sufficient export volumes to sustain the external position. In the outlook, the SDR injection provides an opportunity to Government to prioritise addressing challenges facing the export sector with a view to generating more exports and sustaining the country's external sector position.

Fiscal revenue tracking economic performance as government maintains tight fiscal policy

The country has, for the past 2 years followed a tight fiscal policy framework that has seen the treasury registering some positive fiscal balances. Demonstrating the above, the country's fiscal numbers as presented in the 2021 Mid Term Budget Review reflect a budget surplus of ZWL 570 million for the first half of 2021. Cumulative revenue for the first half was at ZWL198 billion. Vat, 23%, Corporate income tax, 20% and PAYE, 17% were the major contributors accounting for 60% of total revenue. Total revenue collections also include net cumulative foreign currency revenue collections of US$698.5 million. These revenue numbers are showing that corporate tax has taken a bigger share in terms of contribution to total revenue, which reflects improvement in real economic activity. Historically, VAT used to take a much bigger share which in large part may be explained by factors like inflation, not real economic activity.

Contribution of major revenue heads (January to June 2021)



Source: Ministry of Finance

Total expenditure for the first half of 2021 amounted to ZWL197.6 billion. Government expenditure continued to be skewed towards current expenditure, thereby limiting the economy's capacity to generate more goods and services in the future.

Conclusion

While the country's economic prospects for 2021 are positive, there is still huge scope for productive sectors to achieve their growth potential. Government must address all bottlenecks weighing down the performance of real sectors to unlock the full growth potential of the economy. Macroeconomic stability is fundamental for attainment of National Development Strategy (NDS1) targets. Thus, Government must take opportunity of the SDR injection to address the current foreign exchange instability which remains a threat to achievement of these goals.

End