THE CHAMBER OF MINES OF ZIMBABWE

ECONOMIC REVIEW
October 2021

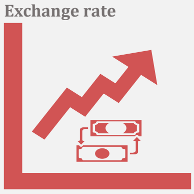
Economy at a glance

Economic Growth Proj: 2021 (%)	7.8
Inflation Oct 21 (%)	
M-o-m	6.4
Y-o-y	54.4
Exchange rate Oct 21 (ZWL/USD)	
Official	97.1
Parallel	190
Money Supply	
M3 growth Jan-Aug 2021 (%)	49
Reserve money growth Jan-Aug 2021 (%)	-8.8
Foreign currency receipts Oct 2021 (USD billion)	7.2
Government revenue to Sep 2021 (ZWL billion)	317

Inflation

Year-on-year inflation in October 2021 was 54.49%

Exchange rate



Zimbabwe dollar depreciated by 11.2% to Z$97 per US$

Exports

Export receipts to October increased by 49% to US$7.2billion

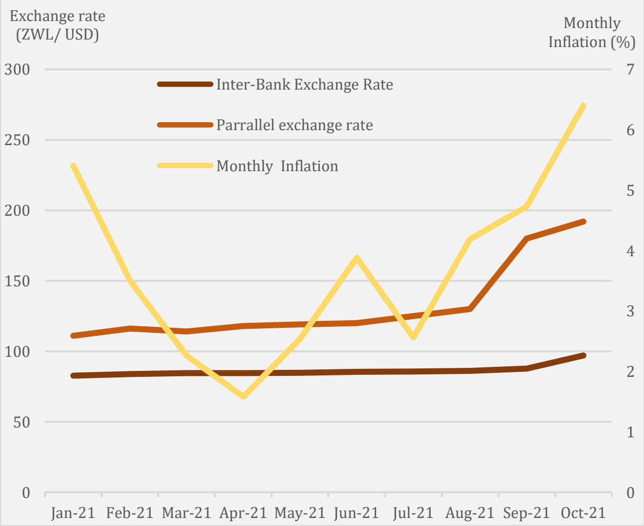
Reserve money growth

Reserve money growth to 29 October was -6.92%

Inflation pressures build-up as exchange rate depreciates

The month of October was characterised by a wave of price increases as inflation pressures continued to build-up. The month-on-month inflation reached a peak for the year of 6.4% (from 4.7% in September) while annual inflation increased from 51.5% in September, to 54.4% in October 2021.

Inflation and Exchange rate developments



The surging inflation continued to trend movements in the parallel market exchange rate which depreciated sharply by 46% from around ZWL130/USD, to around ZWL190/ USD by end of October. The official exchange rate also depreciated by 12%, from around ZWL87/ USD at the beginning of October, to close the month of October at around ZWL98/USD following the Central Bank's move to only allocate available foreign currency on the auction system. Given that most economic agents are indexing their prices to the exchange rate, the depreciation of both the official and parallel market will see prices for most goods and services going up in November and December.

RBZ introduce new measures to fight inflation and exchange rate depreciation

Responding to the wave of price increases and exchange rate depreciation, RBZ, on 28 October, introduced measures aimed at restoring stability in the market. These measures include special exchange rate-linked open market operations bills targeting cooperates with huge local currency balances, increase in bank policy rate from 40% to 60%, upward review in Medium-Term Bank Accommodation (MBA) Facility interest rate from 30% to 40%, as well as increase in statutory reserve requirements for demand/call deposits from 5% to 10%. RBZ also committed to clear the backlog allotment, while only allocating available forex auction system. These measures, if supported by slow money supply growth, are anticipated to stabilise the parallel market exchange rate within few weeks. Meanwhile, the official exchange rate is now expected to reach ZWL120/USD by the end of the year.

Reduction in black market premium to improve exporter viability

The sharp depreciation of the parallel market exchange rate (and the growing black-market premium) had seen exporters losing 20% of their gross proceeds as the 40% surrender portion of export proceeds is liquidated at the official exchange rate at a time inputs are priced at premiums above the parallel market rate. Meanwhile, the depreciation of the official auction exchange rate coupled with the anticipated stabilisation of the parallel market rate is expected to squeeze the black-market premium, impacting positively on viability of exporters.

Downside risks to the inflation and exchange rate outlook emanate from anticipated increase in international food, energy and petroleum prices, potential fresh inflation pressures from inevitable wage demands to restore real incomes and liquidity injections related to the funding of the 2021/2022 agriculture season, anticipated increase in money supply to match the new equilibrium exchange rate and general prices (inflation), increase in prices of goods that are indexed on the official exchange rate. Annual inflation is expected at around 60% by year end.

The Central Bank has kept Reserve Money growth under check
Statistics released by RBZ show that Reserve Money stock as of the end of October was at ZWL26.7 billion, compared to ZWL28.28 billion at the beginning of October. The Reserve Bank has since revised downwards the Quarterly Reserve Money growth target to 10%.

Anticipated government support to the real sector to anchor 2022 economic growth
Economic prospects of 2022 are expected to be underpinned by real sector performance, with the Ministry of Finance and Economic Development pledging more support particularly to agriculture, mining, and manufacturing. The government is targeting the economy to grow by more than 5% in 2022, underpinned by expected strong performance of mining and manufacturing which are projected to grow by more than 8% and 6% respectively. Meanwhile agriculture is expected to post moderate growth in 2022, subsequent to high production in the 2020/21 base year.

Strong external sector performance anchored on bullish commodity prices.
By October 2021, foreign currency receipts reached US$7.2billion, a 49% increase from US$4.2billion for the same period in 2020. Mineral exports were at US$3.4 billion by October 2021 (more than US$3.2 billion generated in the full year 2020). The mining sector is expected to contribute a record US$4.5 billion in export revenue in 2021 benefiting from bullish commodity prices.

Commodity prices Oct 2021

Commodity	Price	m-o-m	YTD 2021
Crude oil ($/bbl)	82.1	▲12.7%	▲24.3%
Coal ($/mt)	236.9	▲27.6%	▲93.0%
Natural gas ($/mmbtu)	5.478	▲7.2%	▲54.1%
Soybeans ($/mt)	552.1	▼-1.0%	▼-7.0%
Maize ($/mt)	239.6	▲1.7%	▼-8.7%
Sugar ($/kg)	0.42	▼-1.7%	▲12.1%
Cotton ($/kg)	2.59	▲13.2%	▲24.2%
Nickel ($/mt)	19362.4	▼-0.1%	▲7.4%
Gold ($/troy oz)	1776.9	▼0.1%	▼-1.3%
Platinum ($/troy oz)	1017.1	▲4.5%	▼-9.3%

Fiscal revenue surpassing targets albeit increased government expenditure
Total revenue for the 9 months to September 2021 amounted to ZWL317 billion (against a cumulative target of ZWL282 billion), compared to the total expenditure of ZWL$343 billion resulting in a fiscal deficit amounting to ZWL26 billion. The deficit was largely financed by the issuance of treasury bills.

Fiscal outturn to Sept 2021. (ZWL$ billion)

Total Revenue	**317.37**	**Total Expenditure**	**342.67**
Non-tax Revenue	16.74	Compensation of Employees	111.61
Tax on Income & Profits	116.63	Use of Goods & Services	46.18
Customs duties	20.44	Interest on debt	1.08
Excise duties	31.39	Subsidies	4.68
Taxes on Specific Services	5.77	Grants	30.42
Value Added Tax	75.00	Social Benefits	18.69
Tax on Gross Revenue	21.87	Other Expenses	5.70
Taxes on financial and capital transactions	28.98	Non-Financial & Financial Assets	124.32
Other Indirect taxes	0.56		
Deficit	**26**		

In the outlook, expenditure pressures may emanate from upward wage adjustments and funding of the 2021/2022 summer cropping season. Sustaining the financing of budget deficits through the issuance of treasury bills without adverse money supply and inflation implications remains a key issue.

Stock market surge as investors seek haven
Meanwhile, the Zimbabwe stock exchange has witnessed a boom as most investors are shifting to the stock market to hedge against inflation and exchange rate risk. This has seen a surge in demand for stocks culminating in all-share Index gaining Z$344,820 million in value in the month of October. Turnover increased by 20% to US$5.66billion and average daily trades increased by 25% to ZWL$269.6 million. In the same period, total foreign activity increased by 11% from 4.4% in September 2021 as foreign sales reached US$1.1 billion (compared to US$398 million in September 2021) against foreign purchases at US$107 million.

Bottom Line:
While the economy is showing signs of recovery, potential macroeconomic instability emanating from exchange rate volatility and high inflation may weigh down the positive outlook for the economy. Government must intensify efforts to stabilise inflation and the exchange rate to guarantee macroeconomic stability, a precursor to economic recovery.