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THE CHAMBER OF MINES OF ZIMBABWE

ECONOMIC REVIEW

January 2022

Economic activities rise as threats from Covid-19 subside

New measures aimed at taming inflation

Commodity markets remain bullish in 2022

Erratic rains spoil agriculture outlook

Economic Growth Proj: 2021 (%)	5.4
Inflation Jan (%)	
M-o-m	5.3
Y-o-y	60.6
Exchange rate Jan 21 (ZWL/USD)	
Official	116
Parallel	220

Business normalising as Omicron threats fade away

The covid-19 situation significantly improved during the period under review. Despite the high infections, hospitalizations and deaths did not rise as had been anticipated. More evidence has proved that the is less fatal than previous variants. The government has since loosened restrictions to near pre-pandemic conditions Business activities are returning to a semblance of normality. All points of entry into the country were fully opened. The tourism and hospitality sector is among the key sectors that are anticipated to benefit from these developments.

Manufacturing industry capacity utilisation reach 61%

The Confederation of Zimbabwe Industries (CZI) estimates the average capacity utilisation in the manufacturing sector increased to 61%, in 2021, compared to 47% in 2020. CZI identified that capacity utilisation subsectors of foodstuffs, chemicals and petroleum, drinks and beverages, significantly improved as the economy opened up. Improved access to foreign currency from the auction market was identified as the major driver of capacity utilisation in the manufacturing sector. In January 2022, the bulk of allocations on the foreign currency auction went towards raw materials at US$28,8 million (41%), and machinery and equipment at US$18,8 million (27%). To give impetus to manufacturing activities, the government has also stepped in to allow manufacturers to retain 100% of the incremental portion of their export receipts.

Dry spell affects agriculture yields

The 2021/2022 summer cropping season has been largely characterized by dry spells in most parts of the country. Erratic rains that have been accompanied by prolonged periods of dry spells have led to moisture distress on crops in areas including parts of Manicaland, Masvingo and Matabeleland. Meanwhile, the government is anticipating agriculture growth of 5,1% in 2022. We expect agriculture output to be subdued in 2022, with increasing chances that the projected growth may not be achievable. This increases risks to the whole economy as agriculture has strong backward and forward linkages with other sectors of the economy.

Record export receipts as mineral exports soar

Zimbabwe recorded all-time high export revenue of US$6.2 billion in 2021. Mineral exports accounted for approximately 84%, a record US$5.2 billion, compared to US$3.2 billion in 2020, largely benefitting from firm commodity prices that prevailed in 2021. In 2022, we expect mineral exports to reach US$5.5 billion on the back of anticipated firm mineral prices and strong recovery in mineral output.

Commodity prices stay firm in January 2022

Commodity prices were largely bullish during the month as geopolitical tensions in Europe increased.

Commodity Prices

	Dec-21	Jan-22
Nickel($/mt)	20016	▲ 22355
Gold ($/troy oz)	1790	▲ 1816
Platinum ($/troy oz)	945	▲ 994
Palladium ($/troy oz)	1980	▲ 2418
Crude oil($/bbl)	72.9	▲ 83.9
Coal($/mt)	72.9	▲ 168.5
Soybeans($/mt)	554	▲ 606
Maize($/mt)	264.5	▲ 276.6
Sugar($/kg)	0.42	▲ 0.4
Cotton($/kg)	2.65	▲ 2.91

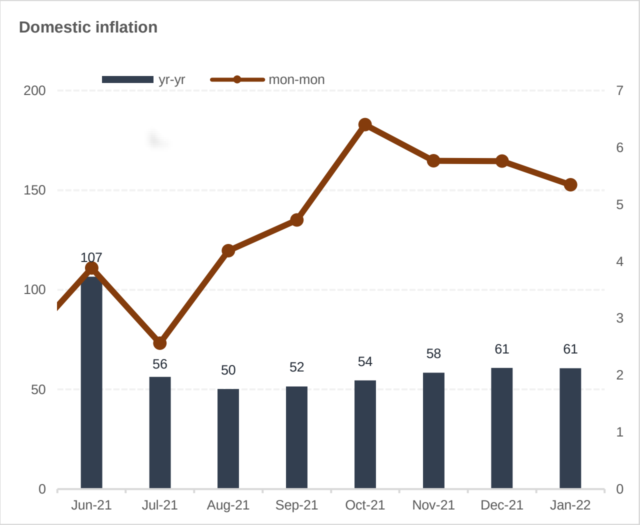
Gold prices surpassed the US$1,800 mark as the USD weakened and annual inflation rate in the USA reached a 40 year high of 7.5% in January spurring investment demand. Prospects of aggressive interest rate hikes were shot down by the US Federal Reserve. Meanwhile, (17 February) gold traded around $1,889 per ounce as geopolitical tensions in Europe mount. Platinum performed its best since October 2021 while palladium had its best month in 14 years in January as a result of strong pent-up consumer demand for vehicles. As much of the world's supply of palladium (38%) is produced in Russia, thus geopolitical tensions between Russia and Ukraine could have implications on the PGMs market. Curtailment of Russian supply could spur global deficits. Oil prices continued rallying in January 2022 as demand outstripped supply. In the outlook, crude oil prices at US$97 per barrel will likely be sustained above US$100 per barrel.

Government moves in to increase the utilization of local currency

Government, through a Public Advisory Note of 4 February 2022, announced new measures to enhance the domestic use of the local currency by adjusting payment modalities (in both foreign and local currency) for royalties, taxes and duties as follows: mining royalties (50:50) domestic taxes on export receipts (in line with retentions) and taxes on vehicle imports (50:50). Previously, royalties and export taxes were 100% taxed in foreign currency. These measures will go a long way in reducing the squeeze on exporters foreign currency retentions as there has been increasing pressures to pay in foreign currency for both obligations to the government and goods and services from suppliers.

Inflationary pressures mount as exchange rate premium widens

Year-on-year inflation averaged 60,61% in January 2022, slightly decreasing from 60,74% in December 2021. However, there are significant inflationary pressures as prices increased by an average of 5,34% between December 2021 and January 2022. If the month-on-month inflation remains above 3% throughout the year, the 2022 end of year inflation targets of between 25% and 35% will be missed. The endogenous factors (the pass-through effects of the parallel market exchange speculation) have had an overwhelming influence on domestic prices rather than exogenous factors (sustained global commodity prices). The local currency has continued to lose value on the official exchange depreciating by over 20% in the three months ending January 2022 trading at official ZWL$116.65/USD. However, on the parallel market with more adverse and far-reaching implications on pricing decisions, the local currency (as of 31 January 2022) was trading at between 230-240 to the USD, translating to grey market premiums of over 100% (relative to the official rate).



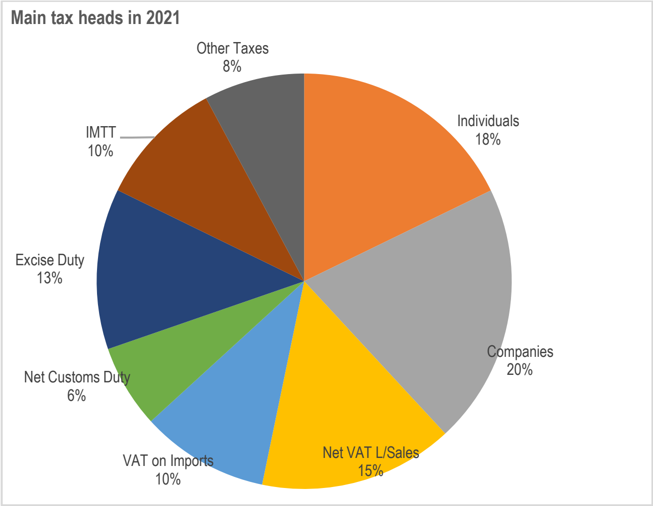
In the outlook, upward review of withdrawals and mobile money limits to prop up inflation

The RBZ increased limits on mobile banking transactions (person to business to ZW$25 000 per transaction with a maximum limit of ZW$100 000 per week and person to person to ZW$10 000 per transaction with a limit of ZW$70 000 per week), and the cash withdrawal to ZW$5000 per week. While it remains premature to evaluate the effectiveness of these measures (as it is hard to forecast human behavior), on the margin, we anticipate inflationary pressures from the increase in the velocity of circulation of local currency. Broad money supply, which grew by 131.8% in 2021, remains a major threat to the inflation outlook. Meanwhile, demonstrating the build up of inflation pressures in the country, the month-on-month inflation for February 2022 increased to 7%, up from 5.3% in January, while year-on-year inflation increased to 66.1% in February compared to 60.6% in January.

Pressure on government expenditure mounts as revenue reaches ZWL$469.21 billion

There has been mounting expenditure pressures on Government expenditure largely arising from wage demands on the back of rising cost of living. Some sections of the public service are declaring incapacitation and are demanding salary payments in US dollars. The treasury has since increased salaries for civil servants by 20%, backdated 1 January 2021. With effect from the 1st of March 2022, civil servants will also receive an additional US$100 making the total hard currency salary component (that is converted and deducted from the total Zimbabwe dollar salary amount) sum to US$175.

Meanwhile, Government revenue collections for 2021 were at ZWL$469.21 billion, a 153.26% nominal increase compared to 2020. After adjusting for inflation, Government revenue grew 4.11% in 2021 as compared to the same period in 2020. The top three revenue heads namely PAYE, corporate income tax and VAT contributed over 60% of total revenue.



Slow trading on Zimbabwe Stock Exchange in January 2022

The total value of shares traded on the Zimbabwe Stock Exchange shrunk by 77% to ZW$4 billion. Daily trades also declined 77% to ZW$195million, while average daily volumes were down 64% to 3.93 million shares. Market capitalisation increased by ZW$110billion to ZW$1.45trillion owing to high inflation. In January 2022, foreign activity averaged just 3% of total trades compared to the 11% average in 2021, summing to ZW$201.6 net sales. In contrast, the Victoria Falls Stock Exchange (VFEX) was more bullish with turnovers increasing by over 600% to US$191 708.

Summing Up

Zimbabwe economic prospects for 2022 remain positive notwithstanding uncertainties surrounding the current agriculture season. The mining sector is expected to anchor economic growth, benefitting from favourable commodity prices. Government should work closely with the mining industry to address structural bottlenecks weighing down the performance of the mining and unlock the full potential of the mining industry and maximise its contribution to the socio-economic development of the country.