THE CHAMBER OF MINES

OF ZIMBABWE

Quarterly Review

Q3 2021

ECONOMY AT GLANCE

Economic Growth-	
Proj: 2021 (%)	7.8
Inflation (%)	
Q3	12
M-o-m: Sept	4.7
Y-o-m: Sept	51.5
Money Supply(%)	
M3 growth: Jan-Aug	49
Reserve money growth: Q3	-12
Exchange rate (ZWL/USD)	
Official: Sept	87.67
Parallel market: Sept	180
Fiscal performance (ZWL b)	
Revenue: Jan-Sept	312.37
Expenditure: Jan-Sept	342.67
Balance: Jan-Sept	-25.30

Mineral exports surge

Mining sector contributes to 78% of export receipts.

Inflation creeps up

Monthly inflation increased to 4.7% in September after bottoming out at 1.6% in April

Fiscal Deficits Emerge

Cumulative budget deficit to September was ZWL$32.85 billion

Sub-Sahara growth prospects revised upwards amid strong global economic recovery

Sub-Sahara growth prospects were adjusted up by 0.3% to 3.7% on the back of favourable mineral prices. Meanwhile, global economic growth projection for 2021 was marginally revised downwards to 5.9%, from an initial projection of 6% as the Covid-19 pandemic and related supply disruptions were not contained as had been anticipated. Anticipated fiscal expenditures on the back of SDR allocations by IMF, however, are expected to support economic recovery in most key economies. Downside risks to global economic outlook include new covid variants, global inflation (arising from SDR liquidity injections, rising international food and energy prices) and sustained supply-side issues such as longer port delays and higher shipping rates.

Elevated energy prices pose near-term risks to global inflation

Global commodity prices remained elevated throughout the year and, overall, much more favourable in the period under review than in recent years. Energy prices (with natural gas and coal prices reached record highs from 2011) surged in response to supply disruptions and increasing demand, averaging more than 80% higher in the third quarter than in 2020. Higher energy prices may start to increasingly weigh on global growth estimated at 5.9%. However, inflation traps remained largely localised.

Global trade nears long-run trend

Growth of global merchandise trade volume (estimated at 10.8% in 2021) moderated as trade volumes approached the pre-pandemic long-run trend. The high annual growth of trade volumes mostly reflects the slump in 2020. Year-on-year growth in the second quarter of 2021 was 22.0%, but fell to 10.9% in the third quarter, in part because of the rapid recovery in trade in the last two quarters.

Global commodity Prices

	Q1	Q2	Jul	Aug	Sept
Crude oil($/bbl)	59.30	67.05	73.28	68.87	72.80
Coal($/mt)	86.76	100.45	122.33	137.92	146.05
Soybeans($/mt)	580.11	619.54	600.44	585.80	557.55
Maize($/mt)	241.63	288.70	278.43	256.61	230.80
Wheat($/mt)	275.22	271.95	254.67	276.18	263.60
Sugar($/kg)	0.35	0.37	0.39	0.43	0.43
Tobacco($/mt)	4181.67	4175.25	4078.12	4285.65	4275.96
Cotton($/kg)	1.99	2.03	2.15	2.23	2.29
Nickel($/mt)	17618.07	17359.29	18818.51	19141.30	19376.88
Gold($/troy oz)	1797.79	1814.96	1807.84	1785.28	1775.14
Platinum($/troy oz)	1159.55	1182.27	1086.48	1008.73	973.19

While the outlook of commodity prices remains favourable (slightly retreating in 2022), heading into the 4th quarter and 2022, downside risks on global economic growth (estimated at 4.9% in 2022) and trade prospects include new covid variants, global inflation (arising from SDR liquidity injections, rising international food and energy prices) and sustained supply-side issues such as longer port delays and higher shipping rates.

Zimbabwe economic recovery anchored on real sector

Substantial signs of recovery in Zimbabwe's macro-economic environment in the 1st half of 2021 prompted an upward adjustment of economic growth projections to 7.8% from the initial projection of 7.4%, underpinned by a stable macroeconomic environment and strong real sector performance led by agriculture, manufacturing, and mining.

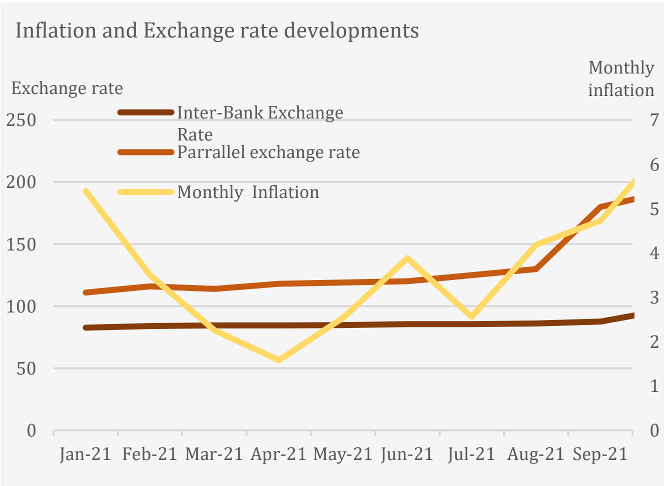
Anticipated government support to the real sector to anchor 2022 economic growth

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.

Vaccination drive to heard immunity buttress economic recovery
The Covid-19 pandemic continues to evolve, threatening economic recovery while exposing gaps in the economy's social structure and safety nets. The government of Zimbabwe allotted US$100 million to procure vaccines to its vaccination target of 60% (herd immunity). By the end of September 2021, the Government had disbursed about US$93.2 million US$127 million towards procurement of almost 16.2 million vaccines and 16.2 million syringes. The target is to reach 60% herd immunity. By end of September, the country had received US$137.6 million and 1,085,000 vaccines from Development Partners to fight the Covid-19 pandemic. As of end of September, at least 5.3 million people (15% of the population) had been vaccinated. Increasingly, companies are requiring their workforce to be vaccinated. Strict adherence to regulations such as the wearing of face masks and hand sanitizing are enforced at all public and business places.

Inflation increases as parallel market exchange rate depreciates

After enjoying a period of dissipating inflation, reaching the lowest point of 1.6% (month on month inflation) in April 2021, inflation increased to 4.7% in September 2021. Annual inflation for September 2021 increased to 51.5%, from 50.2% in August. The resurgence in inflation follows a new wave of price increases in September triggered by sharp depreciation in the parallel market exchange rate from ZWL130/ USD by the beginning of September, to close the month at around ZWL180/ USD. The parallel market exchange rate has emerged as the referral rate for businesses in pricing goods and services. Meanwhile, the official (ZWL$ dollar per unit of US$) was fairly stable, depreciating from 85.4 as of the end of June 2021 to 87.7 at the end of September 2021.



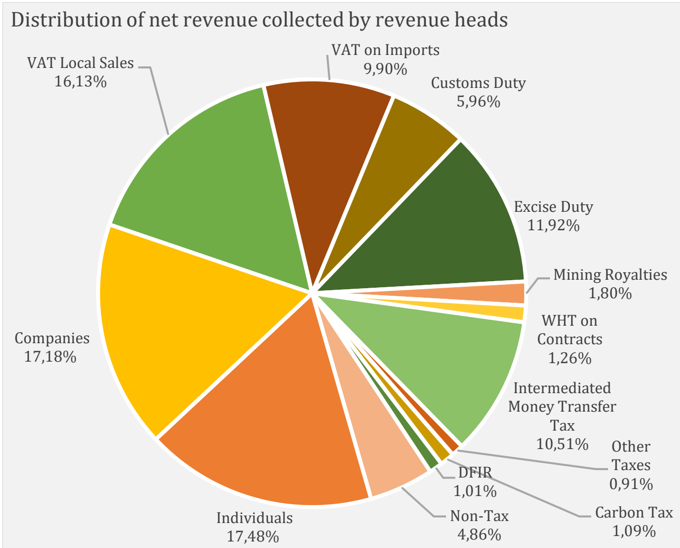
Reserve bank intervenes to address resurgent inflation and exchange rate depreciation

To mop up excess local currency balances incorporates, the Reserve Bank of Zimbabwe (RBZ) proposed further open market operations with the introduction of exchange rate-linked instruments which seem similar to the Non-Negotiable Certificates of Deposits which the Bank is currently using in the banking system. Other RBZ interventions include commitments to clear the 10 weeks accumulated backlog while concurrently only disbursing available funds on the auction system as well as suspension of operating licences for businesses involved in currency manipulation.

Domestic equities markets benefit from the money market vulnerabilities
The Zimbabwe Stock Exchange amassed an additional ZWL$287 billion value during the 3rd quarter as retail investors rushed to hedge against inflation and exchange rate losses. The All-share index gained 38%. However, total trades and daily trades decreased by 3% to ZWL$11 billion and ZWL$685 million respectively in the 3rd quarter.

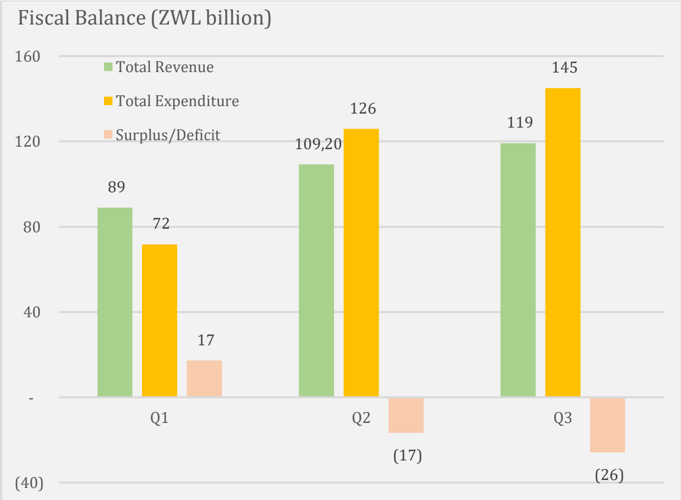
Positive revenue performance notwithstanding re-emergence of budget deficits

Cumulative revenue for the 9 months ending 30 September 2021 amounted to ZW$317 billion (exceeding the ZW$281 billion target). Taxes on income accounted for 34.6% of total revenue reflecting improved economic activities during the period under review.



Cumulative expenditure to September 2021 was at ZWL$343 billion, against a target of ZWL$305 billion reflecting build up in expenditure pressures as inflation escalates.

The fiscal outturn numbers for the 9 months ending September 2021 show a cumulative budget deficit of ZWL$26 billion largely financed by the issuance of treasury bills. The onus is on the government to ensure adequate repayment as and when the accumulated domestic debt matures.



Strong mining sector recovery in Q3

...as the sector post record export earnings

The strong rebound in the third quarter has seen most key minerals recording increases in output for the nine months to September 2021, compared to same period in 2020. Diamond (38%), gold (26%) and coal (23.6%) were among key minerals that posted significant output increases, while PGMs recorded declines in output for the comparable periods. The mining industry generated around US$3.4 billion export revenue in the first nine months of 2021 (more than US$3.2 billion generated in the full year 2020) and full year projections are at US$4.5 billion. The sector is benefitting from favourable international mineral prices bolstered by strong global demand for minerals.

Mineral production performance

Mineral production performance (Jan – Sept)			
Mineral	**2021**	**2020**	**% Change**
Gold (kgs)	20,257	16,079	26.0
Platinum (kgs)	11,208	11,679	-4.0
Palladium (kgs)	9,404	9,875	-4.8
Rhodium (kgs)	1,556	1,061	46.7
Diamonds (cts)	2,886,312	2,086,229	38.4
Nickel (MT)	12,137	12,124	0.1
Coal (MT)	2,796,911	2,263,211	23.6

In the outlook, gold, diamond, coal and nickel are expected to record output increases in 2021, compared to 2020, while PGMs are expected to remain flat.

Mineral output projections			
	2020	**2021**	**% Change**
Gold (kgs)	20,873	29,000	39
Platinum (kgs)	15,004	15,000	0
Palladium (kgs)	12,890	12,850	0
Chrome (MT)	1,272,139	1,200,000	-6
Nickel (MT)	16,336	16,500	1
Coal (MT)	2,750,883	2,800,000	2
Diamond (carats)	2,670,458	3,800,000	42

Downside risks

The operating environment for the mining industry in the third quarter of 2021 continued to be dodged by inadequate foreign exchange allocations, loss of value on the surrender portion of export earnings, high cost of production and electricity supply outages. The Chamber of Mines engaged Authorities on the above and other outstanding legislative and policy matters during the period under review.

Foreign exchange matters

Lately, there has been disproportionate increase in pressure on the 60% that is retained by mining companies on their export proceeds. The emerging demands from both Government departments and local suppliers have seen mining companies utilising between 25% and 40% of their export proceeds to meet local taxes, levies and electricity payments. The remaining foreign currency of between 10% and 35% of export proceeds is insufficient to fund their operations including mining consumables and capital projects. Mining companies experiencing forex shortfalls have had their bids on the auction market rejected on the basis that they are net exporters. Meanwhile, mining

Bottom Line:

As the global economy recovers, global commodity prices have remained el
much to the advantage of the domestic mining industry, which is projected
together with the entirety of the real sector. The exchange rate depreciation a
estimated at 7.8%; our view is that the government and monetary authoritie
attacks on the local currency.

negatively on the viability of mining companies

The Chamber of Mines continues to engage Ministry of Finance and RBZ to reduce pressure on the retained foreign exchange earnings by allowing mining companies to pay taxes and statutory obligations in local currency. The Chamber further engaged for restoration of value on the surrendered portion of export proceeds by providing an export price incentive to cushion mining companies from the exchange rate disparities.

Meanwhile, Information gathered from gold producers show that generally the payment situation for gold delivered to Fidelity Printers and Refiners improved with most gold producers reporting that payments are being done on time.

Electricity and energy

The power supply situation remained fragile with some mining companies not connected to dedicated power lines experiencing power outages. The Chamber engaged ZESA to prioritise mining companies for available power to minimise production disruptions and output losses.

Covid matters in the mining industry

The number of new COVID-19 cases continued to drop from 1 552 cases in July to 66 in September. The number of weekly cases further dropped to 2 in October. The mining industry vaccination numbers continued to increase from a low figure of 2% in July to the current level of 68% (for employees having received the 2nd dose).

Mining industry priority areas for consideration into the 2022 National Budget

In an effort to address the challenges undermining the performance of the mining industry, the Chamber of Mines submitted proposals into the 2022 National Budget to the Ministry of Finance. Among key matters included in the Submission include:

- Appeal to pay royalty and taxes in local currency.
- Proposed incentive framework to attract investment for beneficiation infrastructure in the PGMs Sector.
- Appeal for reduction in royalty for diamond.
- Proposed interventions to incentivise investments in the lithium sector.
- Appeal for regularisation of exemption of the mining sector from complying with the equity threshold of the Indigenisation Act

- Appeal for the establishment of revolving loans for the gold sector
- Appeal for exemption of mining companies from VAT on imported services.
- Appeal for Reduction and Unification of Rural District Council (RDC) charges