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THE CHAMBER OF MINES
OF ZIMBABWE

ECONOMIC REVIEW

December 2021

HIGHLIGHTS

Fresh threats from the new Omicron variant

Errant rains pose significant risks to 2021/22 agriculture

Gold output anchors strong mining performance

ZWL depreciation and Inflation creep up persists

Economic Growth Proj: 2021 (%)	7.8
Inflation Nov 21 (%)	
M-o-m	5.8
Y-o-y	54.8
Exchange rate Nov 21 (ZWL/USD)	
Official	105.7
Parallel	190

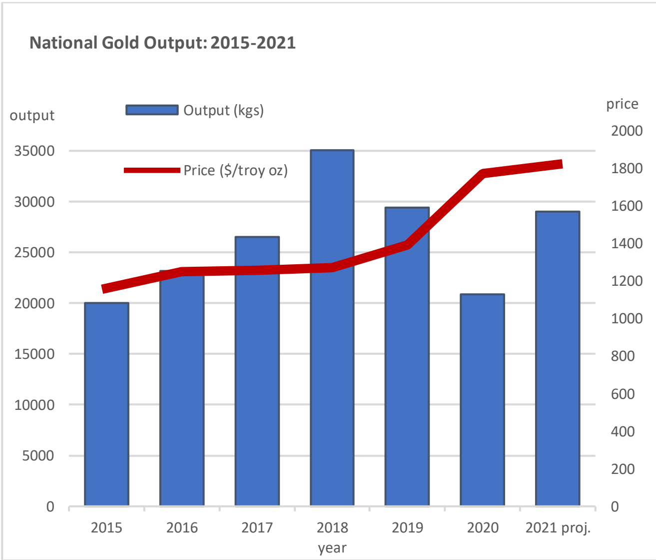
Omicron threat to economic growth

The emergence of the Omicron Covid-19 variant in November 2021 has since prompted key global economies to impose travel restrictions and lockdowns, reminiscent of the first wave in March 2020. The attendant supply chain disruptions and market closures for the export sectors pose risks to the outlook for the global economy. On the domestic front, the country is grappling with a sharp increase in daily infections that has seen new cases rising tenfold from around 500 cases as of the end of November 2021 to over 5,000 cases in December 2021. The severity of this wave will highly depend on the progress on the vaccination drive, specifically the achievement of herd immunity. To date, about 20% of the population has had the second vaccine dose compared to the anticipated 60% (herd immunity). While there have been fewer cases of hospitalizations in the first phases of the wave compared to the early stages of the Delta wave, medical experts are warning that the effects of Omicron are expected to worsen between January and February 2022. During that period, we anticipate widespread disruptions to economic activities as the government will likely tighten the lockdowns. The overall impact of the Covid-19 will affect the economic prospects for 2022. The government, in the 2022 National Budget, is anticipating the economy to grow by 5.5% in 2022 underpinned by strong recovery in agriculture (5.1%) mining (8%), manufacturing (5.5%) and construction (17.4%). The optimism is based on the assumptions around the containment of Covid-19, favorable rainfall, and stable exchange rate among other factors.

Increase in gold output to spur mining sector performance

Zimbabwe gold production for the 10 months to October 2021 surged to 23.3 tons, surpassing the full-year government projected output at 22,5 tons for 2021 and output for the same period in 2020 at 17.6 tons. Gold production for 2021 is now projected at around 29 tons. Gold exports for the 10 months to October 2021 were at US$1.35 billion and are projected to reach a record US$1.750 billion for the full year 2021, benefitting from both output increase and favourable gold price. If output in 2021 matched that in 2018, at 2021 international prices (that are projected to firm in 2022), Zimbabwe could have generated over US$2.1 billion from gold production alone. This calls for the need to address the challenges that limit the sector from attaining its full potential taking advantage of the favourable price outlook. Failure to address issues affecting the gold sector will be a missed opportunity for the whole economy.

As of October 2021, total mineral exports were at US$3.4 billion and are projected to reach an all-time peak of US$4.5 billion in 2021. The potential of Zimbabwe's diverse mineral sector is huge if ample capital is attracted, adequate electricity is supplied, and sufficient foreign currency is availed to meet operational requirements.



…as metal prices remain firm

The period ending November 2021 saw prices, particularly for metals-gold and platinum, that had retreated in the previous month, bolster. Crude oil prices stayed on an upward trend increasing by 19% between the second quarter and November 2021 on the back of surging US dollar inflation and pandemic fears. This is expected to push up prices for net oil-importing countries and poses significant near-term risks to global inflation.

Global Commodity Prices 2021

	Q1	Q2	Q3	Oct	Nov
Crude oil($/bbl)	59.3	67.05	71.7	▲ 82.2	▼ 79.9
Coal($/mt)	86.76	100.45	135.4	▲ 224.5	▼ 157.5
Soybeans($/mt)	580.11	619.54	581	▼ 552	▼ 551
Maize($/mt)	241.63	288.7	256.9	▼ 239.6	▲ 248.7
Sugar($/kg)	0.35	0.37	0.42	▲ 0.42	▲ 0.43
Cotton($/kg)	1.99	2.03	2.22	▲ 2.59	▲ 2.79
Nickel($/mt)	17618.07	17359.29	19112	▲ 19362	▲ 19933
Gold ($/troy oz)	1797.79	1814.96	1789	▼ 1777	▲ 1822
Platinum ($/troy oz)	1159.55	1182.27	1023	▼ 1017	▲ 1038

By and large, global commodity prices remained elevated throughout the year, even exceeding pre-covid-19 levels and, overall, much more favourable in the period under review than in the past 20 years. The marked economic recovery and various supply bottlenecks boosted prices in 2021. In the outlook, it is in our opinion that commodity prices will somewhat moderate in 2022 as supply and demand find a balance whilst markets continue to acclimatise to the evolving pandemic. Still, elevated mineral prices will boost prospects for commodity-driven economies such as Zimbabwe which is expecting mining output growth of 8% in 2022.

Tourism industry battered again as countries impose travel restrictions

The latest travel restrictions imposed by many countries in the world have made it difficult for international tourists to move from one country to another. Zimbabwe, among other top destinations, has been severely affected, with tourist arrivals into the country slowing down by a reported 72% in 2020/21 - the lowest arrivals since 1991. This has seen the tourism sector contribution declining from about 6% to around 4.1% in 2021. The impact of the emerging covid-19 waves is expected to continue causing havoc in the tourism sector in 2022.

Errant rains undermine agriculture outlook

Zimbabwe's agriculture outlook for 2022 may be spoiled by widespread errant rains that have seen early crops wilting while farmers in most parts of the country are yet to start planting due to moisture deficits. While weather forecasters project normal to above normal rainfall for Southern and Central Africa, Zimbabwe is yet to receive any meaningful rainfall effectively shortening the 2021/22 agriculture season. The capacity to supplement rain-fed agriculture with irrigation is almost non-existent in most parts of the country. The 2022 agriculture outlook is bleak. Some pundits have thus far touted a drought season based on past climatic trends that have seen the country experiencing regular droughts over each 10-year interval with case examples of 1982, 1992, 2002 and 2012.

The government was anticipating agriculture growth of 5,1% in 2022 following bumper harvests in 2021 stimulating growth of 36.2%.

Exchange rate volatility "elephant in the room"

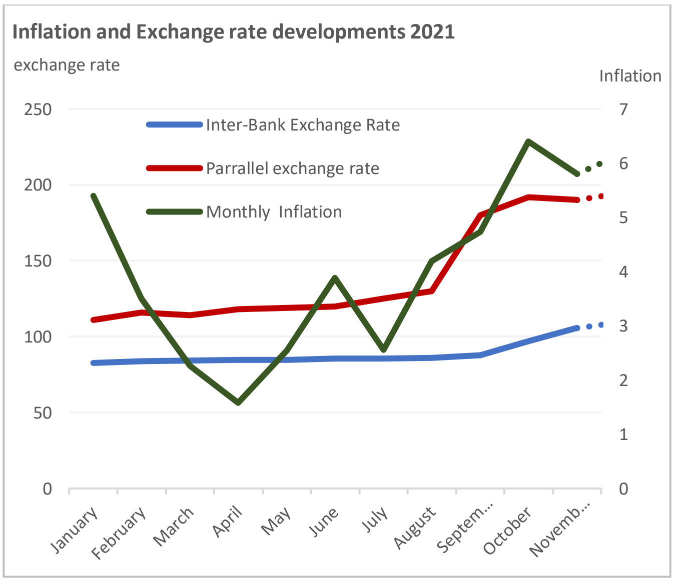
The Zimbabwean dollar continued to depreciate against major currencies, with the local unit depreciating to ZWL$105.69/US$1 on the official auction and ZWL200/ US$1 on the parallel market in November 2021. Meanwhile, by mid-December 2021, the local currency further depreciated to ZWL$108.67/US$1. The depreciation may be driven by both speculative attacks on the local unit as well as excess liquidity injections. In the outlook, the margin between the official and unofficial exchange rate will continue as the availability of foreign exchange on the official market will remain outpaced by the demand to support agriculture, manufacturing and infrastructure growth. Also, exchange rate volatility remains a major risk to economic stability.

… as exporters continue singing blues

Exporters are losing 20% of their export proceeds due to the wide gap between the official and parallel currency exchange rates. Exporters are required to surrender 40% of their foreign currency revenues to the central bank, in exchange for local currency at the official rate, at a time where inputs are priced at the parallel market. Worsening their woes is increasing demand to pay for inputs from local suppliers, government taxes and electricity from ZESA in foreign currency from their already insufficient foreign exchange allocations.

Inflation pressures continue to build-up

Year-on-year inflation for November 2021 increased for the third straight month to 58.4% in November 2021, from 54.5% in October. The month-on-month inflation receded to 5.8% in November 2021, from a yearly peak of 6.4% in the previous month. From the 2022 budget statement, the government expects annual average inflation for 2022 at 32.6%. Increased pressures are expected from imported inflation, particularly as international food and oil prices continue rising. Other major risks will include food inflation resulting from the potential drought and food shortages.



Commitments to phase out fossil fuels are a threat to African economies

The Glasgow Climate Pact released on November 13 includes promises of accelerated climate adaptation finance, commitments to "phasing down" certain fossil fuels, and the finalization of rules for a global carbon market. While Africa is particularly vulnerable to the risks posed by climate change, with significant threats to agriculture and consequently to food security, the continent is also highly dependent on fossil fuels for energy. African countries should take advantage of the global carbon offset markets and develop robust capacity development strategies to transition to cleaner energy.

Summing Up

While the economy experienced significant recovery in 2021, key risks to sustained growth remain the exchange rate volatility, infrastructure deficits and new Covid-19 variants. Sustained economic growth will highly depend on how the government adequately addresses these issues.