



# Monthly Economic Brief

January 2023

## HIGHLIGHTS



**26 Jul-24 Aug**

Zimbabwe's 2023 general elections set for July or August 2023



**3.1%**

IMF estimates 2022 GDP growth at 3.1%, despite strong real sector outturn.



**ZWL\$2 trln**

2022 tax revenue collections exceeded target by 26%.



**16.2%**

The ZWL depreciated by 16.3% to ZWL\$801.60 per US\$

### Calm before the storm...

General elections will be held between 26 July and 24 August 2023. The actual date will be proclaimed by the President, after which nothing apart from an act of God can stop the elections from being held. This is according to the Zimbabwe Electoral Commission (ZEC). History suggests elections will be disruptive for business, yet there is always the flicker of hope that 'This time could be different.' Past elections have set an arguably high bar for a worst-case scenario – making it hard to beat.

Filing of a presidential election petition must be done within seven days of the announcement of election results. Then the Court must hear the petition within 14 days from filing. There will be no inauguration until the case is finalised, during which time the incumbent remains in power. It could be a long election phase ahead. Meanwhile, the current environment suggests a conspicuously fragile calmness, arguably uncharacteristic of impending elections.

### Hot or cold?

According to data from the International Monetary Fund (IMF), Zimbabwe's 2022 economic growth as measured by GDP was positive, yet softer than earlier anticipated. The IMF estimated 2022 GDP growth at 3%, down from an earlier forecast of 3.5% and down from 2021 estimated growth of 7.2%. Treasury also revised its 2022 GDP growth estimate down from an initial forecast of 5.5% to 4%.

GDP growth downgrades for 2022 seem out of sync with real sector output. Gold deliveries to Fidelity (sole authorized buyer) closed 2022 at the highest on record at 35.3 tons. The prior peak

was 33.2 tons in 2018 and the prior year output was 19.3% lower at 29.6 tons. During the same year, wheat output reached its highest at 375,000 tons, up 13% from the prior year. Further, the country reportedly registered its highest foreign currency receipts at US\$11.6 billion – up 20% on the prior year. Diaspora remittances closed at a peak US\$1.6 billion. Diesel consumption went beyond the 1 billion litres mark for the first time, while petrol consumption reached a four-year high and was up 19% on the prior year.

### Growing indirect taxes...

2022 tax collections closed at ZWL\$2 trillion, 26.4% ahead of target (ZWL\$1.6 trillion) and 326.5% above the prior year collections of ZWL\$469.2 billion. The Zimbabwe Revenue Authority (ZIMRA) partly attributed the tax outturn to 'effective collection strategies.' The top three revenue heads were VAT (24.4%), PAYE (18.9% and corporate tax (14.6%).

A high contribution from indirect taxes such as VAT is in sync with a high degree of informalization. Intermediate Money Transfer Tax (IMTT) is also a key indirect tax, and it contributed a noteworthy 9% to total collections in 2022. In 2018, IMTT accounted for 3.5% of total tax collections. Another indirect tax, excise duty, accounted for 13.4% of collections; ostensibly signalling the consumptive nature of the economy, through products such as fuel, beer and airtime.

### 77% transaction dollarization

Average consumer prices (ZWL\$) increased by 1.1% in January 2023, according to the Zimbabwe Statistical Agency (ZIMSTAT). In



the prior month, average prices had increased by 2.4%, against a Central Bank target range of 1% to 3%. Over a 12-month period to January 2023, consumer prices increased by 229.8%. ZWL\$ inflation containment can be attributed to tight monetary policy as well as a notable dollarization trend. The ZIMSTAT estimates that 77% of consumer transactions were in US\$. The 77% average is pulled down by the food and utilities sub-sectors, primarily due to their high weights and high local currency exposure.

## ZWL\$ retreated 16.2% in January 2023

The ZWL\$ depreciated 16.2% against the United States Dollar (US\$) on the official auction platform; from ZWL\$671.45 per US\$ at the beginning of the year, to close the month under review at ZWL\$801.60. The ZWL\$ has arguably managed to hold fort against the strengthening US\$, yet it sustains an inherent fragility as monetary policy maintains a generalized work-in-progress feel.

## Commodities signal stagflation risk

Crude oil prices recovered 1.3% from US\$83.1 to US\$84.2 per barrel in January 2023. Gold increased by 5.2% on account of sustained global recession expectations and the associated 'flight to quality' demand, particularly from Central Banks. Commodity price movements are summarized in the table below:

| Commodity           | Dec'22    | Jan'23    | YTD'22 |
|---------------------|-----------|-----------|--------|
| Crude Oil (USD/bbl) | 83.10     | 84.20     | 1.32%  |
| Gold (USD/oz)       | 1,818.52  | 1,922.33  | 5.71%  |
| Platinum (USD/oz)   | 1,062.02  | 1,001.24  | -5.72% |
| Nickel (USD/ton)    | 29,950.00 | 29,530.00 | -1.40% |
| Palladium (USD/oz)  | 1,779.98  | 1,612.98  | -9.38% |
| Maize (USD/ton)     | 267.30    | 267.90    | 0.22%  |
| Wheat (USD/ton)     | 772.50    | 743.50    | -3.75% |
| Sugar (USc/lb)      | 20.19     | 21.60     | 6.98%  |
| Cotton (USc/lb)     | 83.60     | 86.20     | 3.11%  |

Base metal prices closed the month under review softer in line with a depressed global manufacturing outlook. Longer than earlier anticipated Covid19 related output disruptions in China also weighed down global demand and pricing dynamics. Soft commodity prices closed firmer, except for wheat prices.

The combination of rising oil and food prices poses a muted risk to global inflation, more so for small economies.

**Disclaimer** The general opinions and views contained in this report are subject to change without notice. This report is distributed for informational purposes only and not intended as an offer or solicitation for the purchase or sale of any financial instrument and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this report may be reproduced in any form, or referred to in any other publication, without express written permission of Old Mutual Investment Group Zimbabwe (Private) Limited.

## Market Performances

The ZSE All Share index advanced 17.03% in January 2023. Medium cap counters led the rally as summarized below.

| Sector/Index            | Dec'22 | Jan'23 | YTD    |
|-------------------------|--------|--------|--------|
| ZSE All Share           | 19,494 | 22,813 | 17.03% |
| ZSE Top 10              | 12,311 | 13,824 | 12.29% |
| ZSE Medium Cap          | 36,642 | 48,200 | 31.54% |
| ZSE Market Cap (Z\$ bn) | 1,863  | 2,460  | 32.05% |

The tables below highlight the ZSE top three and bottom three performing stocks for the month ended 31 January 2023.

| Top 3           | Dec'22 | Jan'23 | % Change |
|-----------------|--------|--------|----------|
| Seed Co Limited | 7,425  | 21,820 | 192.81%  |
| Hippo Valley    | 18,259 | 40,000 | 119.06%  |
| Proplastics     | 3,300  | 5,895  | 78.64%   |

| Bottom 3      | Dec'22 | Jan'23 | % Change |
|---------------|--------|--------|----------|
| First Capital | 1,575  | 1,320  | -16.19%  |
| First Mutual  | 2,560  | 1,905  | -25.59%  |
| Bridgefort    | 2,600  | 800    | -69.23%  |

ZSE turnover decreased by 58.1% to ZWL11,638 million during the month. The ZSE's total market capitalisation closed at ZWL2.4 trillion, registering a growth of 18% from the prior month.

The VFEX All Share Index advanced 17.2% in January 2023, offsetting losses of 5.1% in the prior month. Turnover decreased by 29% to US\$640,323, compared to US\$496,795 realised in December 2022. VFEX market capitalization closed at US\$631 million, up 12% from the prior month.

## Economic Outlook

Frozen political tensions could heat up around elections. The baseline view suggests turbulence, despite the current calmness. Real sector output is likely to maintain positive momentum from the prior year, supported by public and private spending on the infrastructure and primary output sectors.

An inherently fragile monetary policy anchors downside risks for the aggregate earnings outlook. Inflation has notably ebbed, yet we still ascribe strategies that guard against complacency. We maintain a positive view on the medium to long term outlook.