



QUARTERLY ECONOMIC BRIEF Q4'2021



HIGHLIGHTS



7.00%

Annual inflation in the US rose to 7% in Dec. 2021 threatening global inflation.



ZW927bn

2022 National Budget is targeting growth following recovery in 2021.



19.33%

Zimbabwe dollar depreciated by 19.33% in Q4'2021.



60.74%

Year-on-year inflation closed the year at 60.74%.



5.5%

2022 GDP growth is expected to be 5.5%.

What Cop26 Means for Africa

According to Global Carbon Atlas, in 2020, Africa emitted 3.81% (1,326 Mt) of the world's global carbon emissions (34,807Mt) and Zimbabwe emitted 0.032% (11Mt). Although Africa is not a huge emitter, the negative impact of carbon emissions on climate change is estimated to cost the continent trillions of US dollars.

The 2021 United Nations Climate Change Conference dubbed Cop26, was held in October and November 2021. It came in the wake of widespread temperature rises, historical fires, storms, flooding, and droughts.

Africa's agenda centred on the transfer of environmental technologies, capacity building, calls for advanced nations to meet their pledge of US\$100 billion towards climate efforts to developing nations and pushing for developed countries to reach net zero emissions by 2050. The US\$100 billion pledge has been extended to 2023.

A significant outcome for the continent was an US\$8.5 billion agreement for South Africa to move away from coal. South Africa is the largest carbon emitter on the continent and ranks 13th in the world, despite its economy ranking 33rd globally. This agreement, if successful, will be a model for decarbonisation for many developing countries.

Over US\$1.5 billion was pledged to protect the Congo Basin, the second largest tropical forest in the world. It is estimated to absorb 4% of global emissions annually.

The funding coming to Africa calls for clear and meaningful strategies to maximise on this support. It also opens opportunities for investments in climate friendly solutions such as renewable energy, recycling, and conservation tourism. Strategic partnerships across the financial, public, civil society, private sectors will be key in the realisation of the continent's climate goals.

Global Inflation Here to Stay or Transitory?

The advent of Covid-19 thrust the world into an economic downturn. According to the United Nations, by August 2021, over US\$9 trillion had been injected into the USA, Japan, the Euro area, and the UK economies through quantitative easing. Together with supply chain bottlenecks, and ultra-low interest rates, this has resulted in high levels of inflation. Annual inflation in the USA for December 2021 peaked to 7.00%, which is an all-time high in nearly four decades.

There are various debates on the nature of inflation and its duration over the short- to medium-term. According to the World Economic Forum's Chief Economist's Outlook in November 2021, there are diverging views on the nature of inflation (demand-pull vs cost-push) and its ensuing outcomes (overheating vs stagflation - high inflation with low economic growth). Understanding the underpinnings of inflation is necessary in implementing policies on either the demand or supply sides of the economy.

Many countries are preparing for a cocktail of monetary and fiscal policy measures which include Central Banks hiking interest rates, limiting bond issues, reducing balance sheets and halting government stimulus packages. In 2022, Poland became the first

country to raise interest rates after raising the benchmark rate by 50 basis points to 2.25%.

When Central Banks in developed countries raise interest rates, there is greater demand for currencies in advanced economies which weakens currencies for developing countries. Consequently, this leads to inflationary pressures for the developing world. It also makes it difficult for developing countries to pay off foreign denominated debt, increasing the likelihood of defaults and economic instability.

Zimbabwe faces the potential of imported food inflation due to the risk of subdued agriculture output in the current agriculture season.

Covid-19 Rears its Head in Q4'2021

As the world was recovering from the Delta variant induced waves, a new strain dubbed Omicron emerged at the end of November. Its genetic structure had the most possible mutations so far and it sent global markets tumbling and travel bans were placed on many Southern African countries.

Locally, this 4th wave of the pandemic has resulted in an increase in new cases and deaths. Between 20 December 2021 and 2 January 2022, 245 deaths were recorded compared to 73 during the second wave which occurred around the same time a year ago.

As of the 16th of January 2022, the 7-day rolling average for new cases was 541, a significant decline from a peak of over 4 500 in mid-December. At the end of 2021, second dose vaccinations amounted to 3,135,175 and third dose vaccinations amounted to 5,004. The country failed to reach the target to fully vaccinate 10 million people by the end of the year, largely due to vaccination hesitancy. About 32% of the targeted population had been fully vaccinated as of the 15th of January 2022.

Covid-19 infections remain a concern and the Government has extended Level 2 lockdown measures to the 28th of January 2022 with some restrictions on a few economic activities. The pandemic is expected to have a mild impact on economic activities in the near term.

2022 Strategy Seeks Growth Following a recovery in 2021

The 2022 National Budget was presented at the end of November with GDP growth estimate for 2021 pegged at 7.8% and projections of 5.5% for 2022. The Budget built on the gains experienced in 2021 with a relatively loose fiscal policy compared to the austerity measures that characterised the start of the Second Republic's administration back in 2018/19. The Budget totalling ZWL927 bn (82% higher than the revised 2021 budget) is targeted towards economic growth with infrastructure development receiving the single largest allocation of ZWL\$156bn (17% of the budget).

The US\$958 million worth of Special Drawing Rights have been included in the budget to cater for social spending in areas such as agriculture and Covid-19 related assistance and beefing up foreign currency reserves. There is need for the government to balance its spending activities to manage inflationary pressures and ensure growth. Treasury is projecting inflation to continue decelerating in 2022 and has set a seemingly demanding annual target of between 15% to 20%. The National Development Strategy has an inflation target range of 3 -7%.

Government paid civil servants USD bonuses in November/December and committed to pay Covid-allowances in hard currencies. This is likely to promote the USD as the preferred currency and exert valuation pressures on the local unit.

The risks to the national budget include possible revenue under performance and potential expenditure overruns given the gap of over ZWL\$1 trillion between line ministries' requests and vote allocations. Other risks include exogenous factors such as Covid-19, commodity prices (imported inflation), and weather shocks which may subdue agriculture sector growth.

Erratic Rains Heighten Risks of Low Agriculture Output

Weather experts from both the Southern Africa Regional Climate Outlook Forum and the Metrological Services Department of Zimbabwe projected above normal to normal rainfall for the 2021/22 agricultural season. However, the start of the season was characterised by early rains, followed by dry spells across most parts of the country. According to a maize crop update by the Department of Agricultural, Technical and Extension Services (AGRITEX), released in the first week of January 2022, maize hectareage was about 14% below last season's hectareage at 908,999 compared to 1,059,956 hectares planted last season. This was also significantly below the government's target of 2 million hectares for the Pfumvudza/Intwasa scheme. The lower hectareage, coupled with uneven rainfall and wilting is likely to result in lower agriculture output for the 2021/22 season. There are already conversations around Government assisting some farmers with replanting to prop up output. Last season the Grain Marketing Board managed to purchase over a million tonnes of maize some of which is for strategic reserves which may be utilised to support the current season's shortfall. This notwithstanding, there may be need for imports to supplement the season's requirements.

Election Campaigning in Full Swing

The campaign season for the by elections scheduled for Q1 2022 and the 2023 harmonised elections intensified in the quarter under review with voter registration and interparty elections taking centre stage. This election period is taking place amid concerns of inflationary pressures and a seemingly challenging agricultural season, threatening to further shrink the already low disposable incomes. We expect Government and the monetary authorities to increase focus on social security, price stability and poverty

alleviation. The international investment community will likely adopt a wait-and-see approach leading up to elections, reducing expectations for any significant inflows of foreign direct investment in 2022.

Record Quarterly Inflation as Prices go up by 19.01% in Q4-2021

Month-on-month inflation for December 2021 was stable at 5.64% compared to November 2021, resulting in Q4'2021 and year-on-year inflation of 19.01% and 60.74% respectively. Fourth quarter inflation was the highest in the year mainly driven by local currency depreciation on both the official and alternative markets. The official exchange rate also recorded the highest quarterly depreciation of 23.96% while the local currency lost about 20% of its value on the alternative market. Annual inflation closed the year at 60.74%. compared to 348.59% for 2020, confirming the disinflationary trend experienced in the year. Inflationary pressures are expected to persist in the near term due rising global inflation, money supply growth and high inflation expectations.

Mixed Trading of the US\$ Against Major Currencies

The United States Dollar (US\$) strengthened against most currencies in Q4'2021, driven by positive market sentiment of economic recovery due to minimal reliance on lockdowns to combat Covid-19. The US\$ strengthened by 2.06% against the Euro in the quarter, to end the year with a gain of 7.58%. The US\$ weakened against the British Pound by 0.20% in the quarter, but overall, it strengthened by 0.49% in the year.

The South African Rand (ZAR) lost 6.15% and 9.16% against the US\$ in the quarter and in 2021 respectively, due to pressures on economic performance. The Zimbabwean Dollar (ZWL) depreciated by 2.76% in December 2021 on the official foreign currency auction, taking quarterly depreciation to a hefty 19.33% and annual depreciation to 24.74%. The depreciation was mainly due to commitments by monetary authorities to address challenges facing the auction and concerns raised by industry players.

Commodity Prices Overall Bullish in the Quarter

Commodity	Price	Dec'21	Q4'21
Crude Oil (USD/bbl)	78.81	11.68%	1.04%
Gold (USD/oz)	1,822.16	2.40%	4.00%
Platinum (USD/oz)	955.48	-0.02%	-1.14%
Nickel (USD/ton)	20,690.00	2.53%	11.15%
Palladium (USD/oz)	1,877.13	5.24%	-0.77%
Maize (USD/ton)	235.22	4.32%	9.53%
Wheat (USD/ton)	773.50	-2.95%	7.80%
Sugar (USc/lb)	18.83	1.24%	-4.80%
Cotton (USc/lb)	113.14	5.99%	9.80%

Commodity prices were up in Q4'2021 due to increased demand following the recovery of global supply chains. Crude Oil prices rose by 11.68% in December 2021 to end the fourth quarter up by 1.04%. The year-to-date price increase at the end of December was 53.78% largely due to economic recovery from the impact of the pandemic in 2020 and limited supply. Gold prices rose in the quarter by 4.00% due to Omicron fears but were down 4% in 2021 reflecting the pandemic induced price volatility.

Local Equities Ended the Year Strong

The ZSE All Share Index registered a marginal 1.19% gain in December 2021 to close the quarter with an overall performance of 26.13%. On a full year basis, the ZSE All share index grew by 310.51%. The detail indices performances are given below:

Sector/Index	Value	Dec'21	Q4'21
ZSE All Share	10,822.36	1.19%	26.13%
ZSE Top 10	6,8311.43	1.45%	40.23%
ZSE Medium Cap	20,407.26	0.19%	-0.93%
ZSE Market Cap (Z\$ bn)	1,317.21	2.10%	27.58%

The tables below highlight the ZSE's top and bottom performing stocks in Q4'2021.

Top 3	Price ZWLc	Dec'21	Q4'21
CFI	9,357.14	29.78%	13,125.64%
MEDTECHA	3,500.00	-40.60%	12,172.09%
ZECO	0.48	100.00%	300.00%

Bottom 3	Price ZWLc	Dec'21	Q4'21
NMB	805.31	-23.78%	-46.31%
FMP	780.00	-0.13%	-35.31%
STARAFRICA	116.12	-0.51%	-31.83%

The value of trades increased by 198.17% in Q4 to ZWL33.13 bn, compared to the previous quarter. This resulted in an annual increase in trade value of 376.80% compared to 2020. Daily trade values averaged ZWL517.79 mn in Q4, up from an average of ZWL\$173.637 mn in Q3. Foreign investors registered a net quarterly sell-off of ZWL\$4.34 bn in Q4, while foreign trades accounted for 20.62% of total trades, up from 13.69% in Q3 2021. The value of Trades on the ZSE in 2021 totalled ZWL65.26 bn, an increase of 276.80% compared to 2020. This is a combination of inflation, good financial performance of underlying companies and the growing appetite for equities as a value preserving asset. The

Victoria Falls Stock Exchange (VFEX) registered trades worth US\$68,056 in the fourth quarter compared to USD473,336 in the previous quarter. Activity on the market has generally been low as the market is still developing while US\$ liquidity remains constrained. Caledonia Mining and Bindura Nickel were listed on the VFEX, bringing the total number of counters to four.

ECONOMIC OUTLOOK

The economy is projected to grow in 2022, although the growth rate is likely to be much lower than initially projected, given the higher probability of a relatively lower agriculture outturn. High global inflation, supply chain disruptions, election induced money supply growth and weaker local currencies are likely to sustain high inflationary pressures in the near term, notwithstanding the tight monetary and fiscal policies. Covid-19 will continue to be a threat, however, with mild impact to the economy as businesses continue adapting to the virus. Politics is expected to dominate themes with looming elections. The focus on investments will be to seek growth where possible, while shielding from the impact of inflation.

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