



QUARTERLY ECONOMIC BRIEF 2021



HIGHLIGHTS


US\$1tn
US\$1tn Biden infrastructure bill has been put on hold


US\$175m
RBZ institute measures to clear auction backlog and strengthen the ZWL\$


2.56%
Zimbabwe dollar depreciated by 2.56% to Z\$87.67 per US\$


51.54%
Year-on-year inflation closed the quarter at 51.54%


38.9%
ZSE market capitalization advanced by 29.79% to ZWL1,024bn

US\$1 trillion Biden infrastructure bill on hold ...

President Biden is facing an intraparty battle over his domestic agenda after putting on hold his US\$1 trillion infrastructure bill. The President insists that a vote on the popular measure must wait until Democrats pass his far more ambitious social policy and climate change package worth US\$3.5 trillion. The bipartisan US\$1 trillion public works bill will apply to routine transportation, broadband, water systems and other projects. To avoid a government shutdown, the Senate approved legislation to temporarily raise the Federal Government's debt limit until December 2021. This was passed through the Senate and the House of Representatives

The Welfare and Climate change bill is expected to result in tax hikes for corporations and the rich to fund the ambitious plan. The aim is to invest the funds in an array of social programmes, including early childhood education, universal preschool, government-funded two-year college education, paid family and medical leave, an expansion of government health insurance and environmental spending. Opponents of the bill have described it as "fiscal insanity." The bill if approved is expected to significantly increase the fiscal debt, exacerbate inflation, and compromise the value of the US\$ due to a concomitant increase in money supply.

COP26 conference - calls for action and less talk...

The COP26 conference to be held in Glasgow on October 31, 2021, aims to secure more ambitious climate action from the nearly 200 countries that signed the 2015 Paris Agreement. According to the US climate envoy John Kerry, the world's major economies must "stretch to do more" at next month's U.N. climate talks to show their seriousness about tackling global warming.

Youth climate activists have demanded policymakers match words with action and stump up billions of dollars to wean the world off fossil fuels. They have also called for a transparent climate finance system and more grants to assist people with the highest exposure to the impact of climate change. Wealthy nations that pledged a decade ago to mobilize US\$100 billion a year to assist vulnerable countries to adapt and transition to cleaner energy are still short of their 2020 goal. This is likely to become an important goal of responsible international investors who will be looking for more Environment, Social and Governance (ESG) characteristics in investments globally.

Opposition party wins Zambian Elections ...

In August 2021, Zambians went to the polls to elect a new President in which the opposition leader Hakainde Hichilema defeated the incumbent president, Edgar Lungu. In the final tally, Hichilema secured 2.8 million votes while Lungu was in second place with 1.8 million votes, out of seven million registered voters.

Since the election, Hichilema has already engaged the World Bank and International Monetary Fund leaders, riding on the wave of international attention to pull Zambia out of a debt crisis and secure funding for economic revival. Zambia became the first African country to default on its debt during the pandemic and President Hichilema has engaged lenders for a possible bailout. The Zambian Kwacha appreciated by 13.95% since the new party came into power.

Zimbabwe| RBZ steps in as the local currency tumbles

Reserve Bank of Zimbabwe (RBZ) has taken steps to strengthen the local currency by mopping up excess liquidity in the financial

system. The Bank plans to issue exchange rate-linked instruments directly to corporates with excess local currency balances. The instruments are seemingly akin to Non-Negotiable Certificates of Deposits (NNCDs) RBZ is already issuing to banking institutions with excess liquidity. RBZ was yet to issue guidelines on the implementation modalities of the instruments.

Monetary authorities envisaged that clearing excess liquidity would reduce ZWL balances ostensibly anchoring demand for foreign currency on the parallel market where the exchange rate premium is reportedly above 90%. However, on paper, the policy measure appears complex. It will be interesting to know how authorities are going to determine the “excess funds”. In addition, corporate bank balances are usually transitory in nature as the funds are largely for working capital purposes. Exchanging cash for an instrument may complicate working capital management for businesses and ultimately disrupt production.

In addition, to open market operations, the Central Bank committed to clear the foreign currency auction settlement backlog which has reportedly deteriorated to over 10 weeks. The sources of funding to clear the backlog were unclear with possibilities of RBZ utilising the recently allocated IMF Special Drawing rights to bankroll the auction. RBZ has partly attributed the backlog to malpractices by certain entities that were sponsoring multiple bids under the auction system. Clearing the backlog is important to build confidence in the local currency and curtail exchange rate pass-through effects on inflation.

Current account to register surplus...

Zimbabwe's current account is projected to register a stronger surplus position of about US\$1,091 million this year, higher than the initial projection of US\$611.5 million. The country recorded current account surpluses of US\$920 million and US\$1,096 million in 2019 and 2020 respectively. Diaspora remittances were one of the main drivers of the strong current account performance, and a similar trend is expected this year. The strong external sector performance has led to a significant increase in foreign currency nostro balances reportedly at US\$1.8 billion as of the 6th of October 2021 up from about US\$1 billion in July 2020.

Ideally, the positive external sector position should have resulted in a stronger local currency. However, given the structure of the economy, some of the foreign currency may be finding its way into the informal sector. Notwithstanding the positive current account, the trade balance was in a deficit of US\$430 million for the first half of 2021 from exports amounting to US\$2.590 billion and imports valued at US\$3.020 billion. Merchandise exports increased by 22,8% from US\$2.285 billion during the first half of 2020 to US\$2.590 billion over the comparative period in 2020. Imports increased at a faster rate than exports, at 31.47%, to US\$3.020 billion, heightening the risks of a wider trade deficit and depreciation of the local currency in the outlook.

Preferential tariffs on exports to the EU...

Zimbabwean exporters are now able to enjoy preferential tariffs on exports into European Union markets. This is due to the introduction of the European Union-East and Southern Africa (EU-ESA) interim Economic Partnership Agreement (EPA). Products originating from Zimbabwe shall, on importation into the EU, benefit from the preferential tariff treatment upon submission of an invoice declaration. Zimbabwe currently exports about 13% into the EU. Under the new agreement products of animal origin, cereals, beverages, paper, plastics and rubber, textiles and clothing, footwear, glass, and ceramics will be exempted from export tariffs. The exemption is expected to increase margins for companies with the listed products and the overall value of exports into the EU.

Favourable rainfall forecast for 2021-2022...

The Southern Africa Regional Climate Outlook Forum issued the 2021/2022 rainfall season forecasts with projections of a higher likelihood of normal to above-normal rainfall in the first half of the season. The second half of the season (January—March) is projected to experience above-normal rainfall. Resultantly, a good agricultural season is anticipated with output likely to match production achieved in the 2020/21 season. However, above-normal rainfall and the distribution of the rains during the season are key risks to output.

Covid-19 third wave wreaks havoc....

As of the 02nd of October 2021, the country had 131,094 cases of COVID-19, up from 70,426 at the end of June 2021. The average number of daily cases fell significantly from 2,058 cases in July 2021 to 227 cases by the 02nd of October 2021, signifying the ebbing of the 3rd Wave of the pandemic. The vaccination program continued during the quarter with a cumulative total of 3.106 million people having received the 1st dose of the vaccine while 2.302 million people got the 2nd jab as of 02nd of October 2021. About 23% of the targeted 10 million people had been fully vaccinated as of the 2nd of October 2021. There was a marked slowdown in the average number of daily vaccinations from a peak of 31,000 in August 2021 to 20,000 by end of September 2021. The slump is in part due to vaccine hesitancy.

Government has instituted measures to encourage vaccinations which include “the no vaccination, no employment” policy for civil servants and making it mandatory for people to get vaccinated to access agriculture markets, gyms, restaurants, and churches. However, the responses have not been positive with labour unions taking the matter to the courts. At the current average daily vaccination, herd immunity is highly unlikely to be achieved in 2021, sustaining fears of further waves of the virus.

Consumer prices up 11.91% in Q3-2021

Average consumer prices increased by 4.73% in September 2021, resulting in Q3-2021 inflation of 11.91%. Inflation for Q2-2021 and

Q1-2021 was 8.21% and 11.53% respectively. Year-on-year inflation significantly declined to end September 2021 at 51.54% relative to 106.64% in June 2021. Base effects and a relatively tight monetary policy contributed to the decline in year-on-year inflation. The blended inflation rate was up by 1.94% in September 2021 taking Q3-2021 blended inflation to 3.97%. The year-on-year blended inflation rate closed September 2021 at 24.44%. The RBZ had initially projected inflation to close the year between 25-35%. The forecast, however, was revised to between 35-53%, citing the impact of parallel market exchange rates on prices. Inflation is projected to close the year at about 55%. Measures recently introduced by authorities to curtail “illegal” foreign currency trading and the use of parallel market rates in pricing are likely to further dent confidence in the local currency and negatively affect economic activities, in the absence of adequate funding on the foreign currency auction system.

Strong economic data anchor the US\$...

The United States Dollar (US\$) strengthened against major currencies in Q3'2021, due to strong US economic data and improved market confidence. The US\$ gained 2.31% against the Euro to close at US\$1.16 per Euro during the quarter.

The South African Rand (ZAR) depreciated against the US\$ due to a stronger dollar and negative sentiment toward emerging market economies. The ZAR depreciated by 5.74% against the dollar and closed the quarter at ZAR15.06 per US\$. The Zimbabwean Dollar (ZWL) depreciated by 2.00% and 2.56% in the month of September 2021 and Q3'2021 respectively to close at ZWL\$87.67 per US\$.

Commodity prices bullish during the quarter...

Commodity prices were largely up in the third quarter of 2021 due to positive global economic data, as countries gradually eased COVID-19 lockdowns restrictions. Price changes for the month of September 2021 and Q3-2021 are shown in the table below:

Commodity	Price	Sep'21	Q3'21
Gold (USD/oz)	1,752.11	-2.90%	-0.53%
Platinum (USD/oz)	966.49	-3.59%	-8.94%
Nickel (USD/ton)	18,615.00	-1.58%	2.21%
Palladium (USD/oz)	1,913.01	-22.58%	-31.28%
Maize (USD/ton)	214.75	1.44%	2.49%
Wheat (USD/ton)	717.50	-0.45%	12.42%
Sugar (USD/lb)	19.78	-1.35%	12.32%
Cotton (USc/lb)	103.04	9.96%	19.94%

Crude Oil prices reached record levels since 2018 buoyed by supply constraints and increased demand as major economies have largely lifted Covid-19 restrictions. Gold prices fell marginally during the quarter by 0.53% as investors continued to favour risky assets ahead of the yellow metal.

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Local equities markets rally continues...

The ZSE gained ZWL\$286.760 billion in value during the quarter due to inflation hedging activities and increased retail investors' participation. All major indices were positive in the third quarter.

Sector/Index	Value	Sep'21	Q3'21
ZSE All Share	8,580.16	28.98%	38.50%
ZSE Top 10	4,857.20	35.11%	53.98%
ZSE Medium Cap	20,599.24	20.95%	19.26%
ZSE Market Cap (ZWL billions)	1,024.318	29.71%	38.88%

The tables below highlight the ZSE top and bottom performing stocks in Q3-2021.

Top 3	Price ZWLc	Sep'21	Q3'21
ZECO	0.12	300.00%	300.00%
BAT	199,000.00	99.23%	121.39%
CASSAVA	3,145.65	62.13%	109.75%

Bottom 3	Price ZWLc	Sep'21	Q3'21
GETBUCKS	800.00	-3.47%	-49.03%
STARAFRICA	164.59	-7.59%	-44.55%
NTS	800.00	-25.93%	-35.74%

Value of trades decreased by 2.96% to ZWL\$11.453 billion in Q3-2021 compared to Q2-2021 due to IMF SDRs induced market slow down experienced in August. Daily trade values averaged ZWL\$173.637 million, down by 2.64% from the prior quarter. Foreign investors registered a net quarterly sell-off of ZWL\$685 million compared to ZWL\$3.27 billion in the prior quarter. Foreign trades accounted for 6.8% of total trades during Q3-2021, down from 22% in Q2 2021.

There was a significant jump in trades on the Victoria Falls Stock Exchange (VFEX) due to the addition of Padenga onto the bourse. US\$473,336 worth of trades in Seedco International and Padenga Holdings were recorded in the quarter.

ECONOMIC OUTLOOK

The performance of the official foreign exchange auction market and the supply of foreign currency in the economy are key determinants of the direction of macro-economic variables in the outlook. The local currency is expected to remain under pressure on the parallel market, sustaining high inflationary concerns in the near term. While the 3rd wave has subsided, the risk of new waves remains high in the absence of herd immunity. Cautious optimism is maintained on the outlook.