



MONTHLY ECONOMIC BRIEF



NOVEMBER 2021

HIGHLIGHTS



IMF Visit

IMF maintains growth prospects and provides recommendations



82%

2022 National Budget
Z\$927.3bn



8.07%

Zimbabwe dollar depreciated
by 8.07% to Z\$105.69 per US\$



58.40%

Year-on-year inflation closed
the month at 58.40%



-6.40%

ZSE market capitalization declined by
6.40% to Z\$1,290.06bn

IMF Article IV Mission to Zimbabwe

As part of regular country assessment, the IMF staff held virtual consultations with various stakeholders in the country from the end of October to mid-November 2021. The staff projected 2021 GDP growth at 6% and made several market fundamentalist recommendations. These included the need for more exchange rate flexibility to tackle market distortions, creating fiscal space for critical spending, calls for structural and governance reforms and data transparency.

The exchange rate flexibility recommendation came at a time when monetary authorities were already under pressure from economic agents to address the sticky official exchange rate and currency supply challenges on the auction. To restore confidence in the auction, Government reportedly availed funding to partially clear an estimated US\$350m foreign currency settlement backlog while the auction exchange rate has depreciated sharply by 17.05% since the beginning of October 2021. Notwithstanding the interventions, there is need for a sustained supply of foreign currency on the auction. The exchange rate mechanics need to be reviewed to largely reflect market forces.

One of the areas of Government focus that are in sync with the IMF staff recommendations is the need for critical spending. In the 2022 National Budget Statement, Treasury made the single largest allocation towards infrastructure development of ZW\$156bn, (17% of the budget). The construction of dams has become a critical area of focus for the government as water security in agriculture has become more crucial in the face of climate change. Roads, schools, and hospitals have been

underdeveloped over the years and this focus on infrastructure development is commendable and timely. We expect companies in construction and overarchingly the banking sector to benefit from these Government expenditures.

National Budget pursues developmental goals

The total 2022 national spending budget amounts to ZWL\$927 bn (18.3% of GDP) with revenue projections at ZWL\$851 bn (16.6% of GDP) which results in a budget deficit of ZWL\$76 bn (1.7% of GDP). Treasury is forecasting GDP to grow by 7.8% and 5.5% in 2021 and 2022 respectively. Growth in 2022 will be anchored on the agriculture, manufacturing, construction, and mining sectors. Projected expenses in 2022 are 82% higher than the 2021 expenditure, implying economic growth, a higher multiplier effect, and subsequently increased inflationary pressures. The ZWL2.7trn requests from line ministries amplify risks of a higher than anticipated budget deficit.

Government has come up with a range of tax base widening measures to support the seemingly ambitious spending budget. These include a cocktail of excise duties as well as a contentions US\$50 levy on cell phones. The new tax measures reflect the limited revenue sources in a highly informalized economy. The risks for revenue underperformance in 2022 are high as growth in key tax contributors are seemingly misaligned with projected inflation and volume growth rates across key economic sectors.

The projected 2022 trade deficit of US\$1.2 bn is expected to increase foreign currency supply pressures. Treasury has allocated circa 30% (US\$287 million) or about 3 weeks import cover of the Special

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Drawing Rights (SDRs) towards building foreign currency reserves to support the local currency. Diaspora remittances are expected to contribute around US\$1.5 bn. However, a greater percentage of the remittances are likely to be channelled into the informal market with minimal benefit to the formal economy.

The budget came at a time when the Government must address several issues affecting the economy, among them the provision of Covid-19 vaccines, support for several sectors that were affected in prior economic meltdowns, funding of the 2023 harmonised elections and strategically position the country for the future. Maintaining fiscal prudence given the varying demands in the economy will likely be difficult for Government to balance. There are intentions to float US dollar denominated long term bonds amounting to US\$100mn. The US dollar bond will be supplemented by local currency treasury bills, external loans and SDRs to fund the budget deficit. Strong reliance will likely be placed on the domestic market; however, unattractive ZWL interest rates will likely affect uptake of the instruments.

Fresh Covid-19 fears as Omicron variant emerges in Southern Africa

Omicron, the latest Corona virus variant detected in Botswana and South Africa at the end of November, has raised fresh lockdown fears across the world. This new strain resulted in many countries across six continents, introducing specific restrictive measures including travel bans for people from mostly Southern African countries. The need for vaccinations to reach herd immunity to minimise the resurgence of new strains cannot be overemphasised. The Government quickly instituted measures for testing and quarantining returning citizens at the ports of entry to contain the spread of the variant. However, reports have highlighted the slow implementation of these measures, escalating the risk of infections and a significant fourth wave.

As of the end of November, about 28% of the targeted 10 mn people had been fully vaccinated. The 7-day rolling average for new cases at the end of November 2021 was 131 compared to 79 in the previous month and has since surged to 2,184 by the 8th of December 2022, signifying a fourth wave. Vaccinations in November 2021 rose to 705,358 compared to 550,445 in October 2021 as 16- and 17-year-olds were included in the program. Vaccine hesitancy remains a concern in reaching herd immunity.

New threats on international engagements

Although the President had agreeable engagements with the UK Prime Minister, Boris Johnson at Cop26, relations with the UK seem to be turning sour. There was debate in the UK's House of Commons in November, where various individuals raised concerns and made calls for political reforms and the addressing of human rights issues. The UK indicated that Zimbabwe would not be accepted into the Commonwealth until these reforms have been instituted. Zimbabwe applied to re-join the Commonwealth in

2018. This deterioration in relations is complex and will likely persist in the foreseeable future given the divergent views on political reforms on both sides.

CPI goes down by 0.64% in November

Consumer prices decreased to 5.76% in November, compared to 6.40% in the prior month. On a year to date and year-on-year basis to November, prices increased by 51.98% and 58.40% respectively. The decline in monthly inflation was a result of lower price increases in food and beverages and healthcare. Monetary authorities are projecting inflation to end the year between 58% and 60% supported by the tighter monetary policy measures of higher interest rates and reserves instituted at the end of October 2021. Parallel market rate developments and adjustment of official exchange rate linked prices such as utilities and fuel are expected to drive inflation in the near term.

Inflation concerns weighs on the US dollar

Inflation in the United States rose in November, with Bloomberg estimating month on month inflation at 0.7%. This further weakened the US Dollar (US\$) by 3.15% against the Pound, resulting in the US Dollar closing at US\$1.33 per Pound during the month. The South African Rand (ZAR) weakened against the US\$ due to escalating economic challenges (including power shortages) and Covid-19 fourth wave concerns resulting in a depreciation of 4.02% to close the month at ZAR15.81 per US\$. The Zimbabwean Dollar (ZWL\$) depreciated sharply by 8.07% against the US\$ in November 2021 to close at ZWL\$105.69 per US\$, as authorities attempt to address exchange rate market disparities.

Commodities prices a mixed bag

Commodities had mixed trading in the month of November. Crude Oil prices declined by a significant 16.21% in the month, amidst fears of the fourth wave of the pandemic. This is expected to push down the cost of fuel for net oil-importing countries. The gold price was up by 0.17% in November 2021 due to safe haven demand on the back of surging US\$ inflation and pandemic fears.

Commodity prices are given in table below:

Commodity	Price	Nov'21	YTD'21
Crude Oil (USD/bbl)	70.57	-16.21%	38%
Gold (USD/oz)	1,779.43	0.17%	-6%
Platinum (USD/oz)	955.68	-5.53%	-11%
Nickel (USD/ton)	20,180.00	1.82%	20%
Palladium (USD/oz)	1,783.62	-10.54%	-26%
Maize (USD/ton)	246.00	10.89%	30%
Wheat (USD/ton)	797.00	3.81%	25%
Sugar (USc/lb)	18.60	-3.83%	22%
Cotton (USc/lb)	106.75	-6.16%	37%

Local equities slumped after months of rallying

The ZSE ended the month on a negative note after two months of rallying. The slump in prices was largely due to profit taking by some market players amidst speculative behaviour. The downward trend has reversed in the early weeks of December as inflation is expected to persist in near term. Activity on the stock market is expected to be subdued in the month of December due to the holiday season.

Sector/Index	Value	Nov'21	YTD'21
ZSE All Share	10,695.57	-5.60%	306%
ZSE Top 10	6,714.23	-5.2%	302%
ZSE Medium Cap	20,367.80	-7.61%	271%
ZSE Market Cap (Z\$ bn)	1,290.07	-6.40%	306%

The tables below highlight the ZSE top and bottom performing stocks in the month of November 2021.

Top 3	Price ZWLc	Nov'21	YTD'21
MEDTECH	5,900	36,130%	74584.23%
EDGARDS	525.51	31.32%	320.31%
CFI	7,210	21.89%	10,091.81%

Bottom 3	Price ZWLc	Nov'21	YTD'21
AFRICAN SUN	671.90	-36.00%	303.54%
FMP	781.00	-34.92%	189.26%
AXIA	2,995.74	-25.03%	226.71%

Total value of trades increased by 75.84% to ZWL\$9.899 bn in November 2021, up from ZWL\$5.662 bn in October 2021. Daily trade values averaged ZWL\$499.981 mn, up by 66.90% from the prior month. Foreign investors registered a net monthly sell-off of ZWL\$3.645 bn, with foreign trades accounting for 45.12% of total trades during the month, up from 10.80% in September 2021.

There were US\$ 36,533.82 worth of trades in SeedCo International and Padenga Holdings on the Victoria Falls Stock Exchange (VFEX) during the month. Caledonia Mine was listed on 2 December to bring the total counters on the VFEX to 3. More listings are expected in the near term.

ECONOMIC OUTLOOK

The 2021/22 agriculture season seems to be off to a good start with Command Agriculture and Pfumvudza programs already underway. It has been reported that over two million households have subscribed for Pfumvunza compared to 1.5 million families that subscribed in the 2020/2021 season. Foreign currency and inflationary pressures are expected to persist in the near term on the back of local currency depreciation. The Covid-19 fourth wave has been declared in various countries and is likely to result in further travel and operational restrictions locally and globally. This is expected to negatively impact the level of economic activities during the festive season.

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