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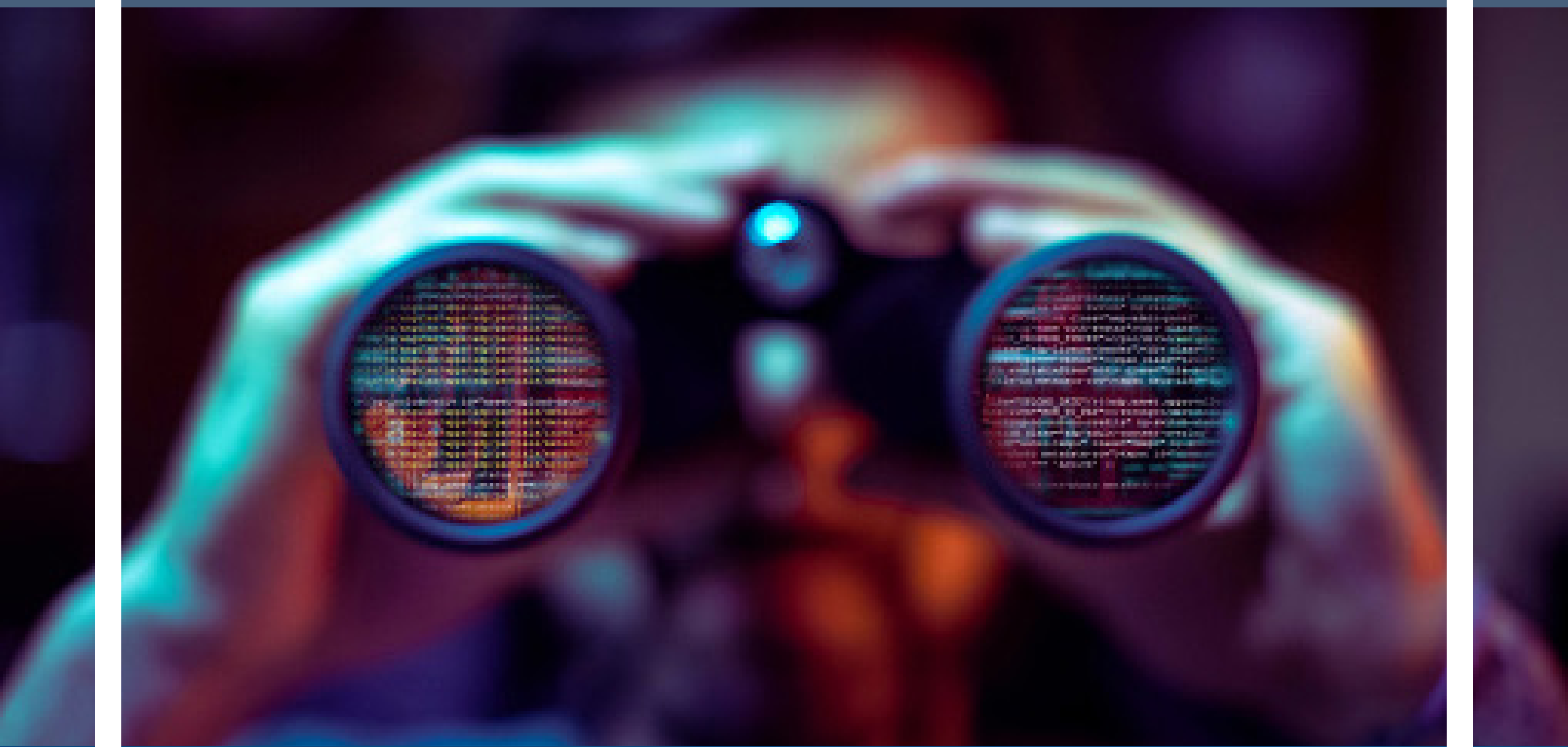


CZI ANNUAL ECONOMIC AND BUSINESS OUTLOOK

2022

CONTENTS

The report is a publication of the CZI Industrial and Economic Research Department. It is produced from our analysis and insights combined with the contributions made by the CZI Annual Economic Outlook presenters, panellists and discussions. We would like to extend our sincere gratitude to the 2022 contributors as follows:

Busisa Moyo
United Refineries Limited
CEO
Member of Economists Round Table @CZI

James Wadi
BancABC
Group Economist
Member of Economists Round Table @CZI

Joseph Mverecha
AFC Bank
Strategy and Business Development Head
Member of Economists Round Table @CZI

Shelton Sibanda
Imara Capital
Portfolio Manager

Pardon Chitsuro
Chamber of Mines
Economist

Graeme Murdoch
Food Crops Contractors
Chairman

Stella Illeva
World Bank
Senior Country Economist

Farai Mutambanengwe
SMEAZ
CEO
Member of Economists Round Table @CZI

Tinashe Murapata
Leon Africa
Founder

About the Report

The CZI Economic Outlook is an annual publication which started in 2020 after years of hosting a symposium on the economic outlook. The Economic Outlook symposium was traditionally an iteration of the fiscal policy and monetary policy and how they would impact the business operating environment. The confederation has gone further to translate policy iterations, scenarios, projections and debate into the key variables in the local environment that would impact both business and economic prospects for the year.as well as the continental and global outlook’s possible influence on the Zimbabwean economy.

1. Introduction

The year 2022 is the second year into the implementation of the National Development Strategy 1 (NDS1), which is the second economic blueprint among the three that are to lead into the attainment of Vision 2030. This means that the 2022 Economic Outlook offers an opportunity to evaluate the foundation of NDS1, especially in the context of whether the roadmap towards Vision 2030 is still intact or some adjustments are now called for to bring the trajectory back into shape.

The 2022 Economic Outlook provides a synopsis of the economy and assesses whether the current micro and macro-economic variables are pointing to a generally improved year. It broadly serves three main purposes:

Ø Provide business with insights and analysis that they can iterate with their strategies, plans and models

Ø Provide market feedback to policy makers on the key macro and sector policies

Ø Map potential policy impact and allow policy makers to derive policy priorities based on identified risks to the achievement of set targets.

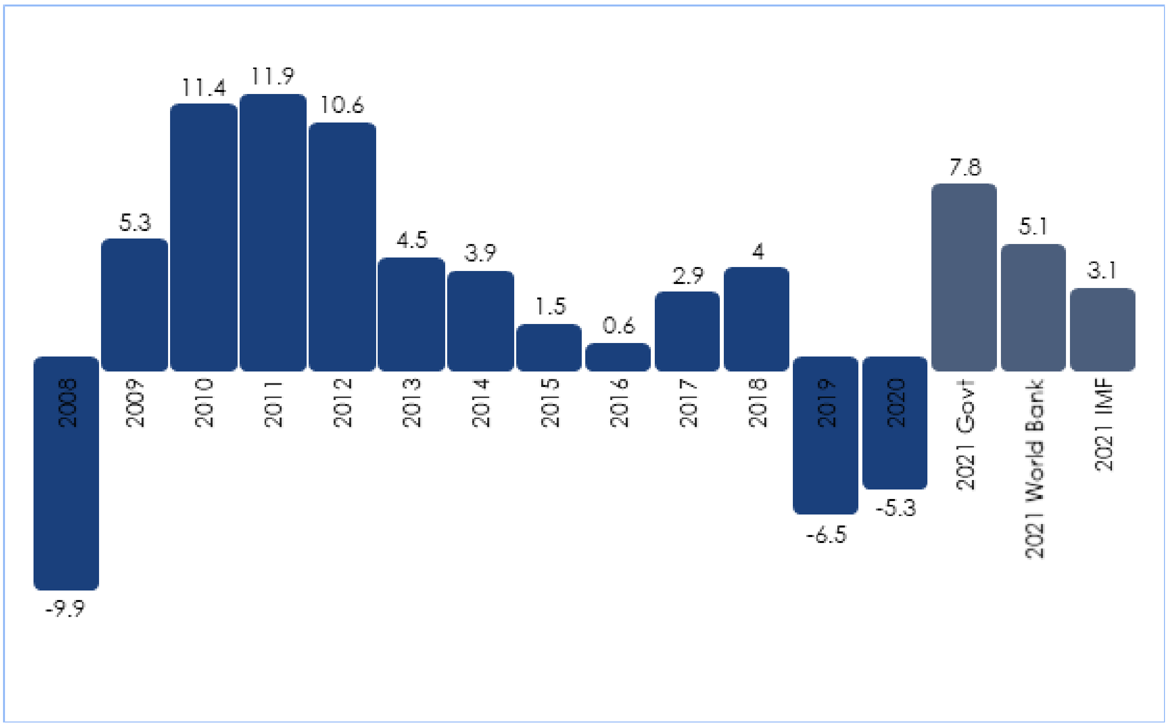
Key areas of focus are:

- Ø A retrospect into 2021;
- Ø The global perspective;
- Ø Fiscal and monetary policy implications on business;
- Ø Currency and inflation expectations;
- Ø Real sector outlook; and
- Ø External sector and perspectives

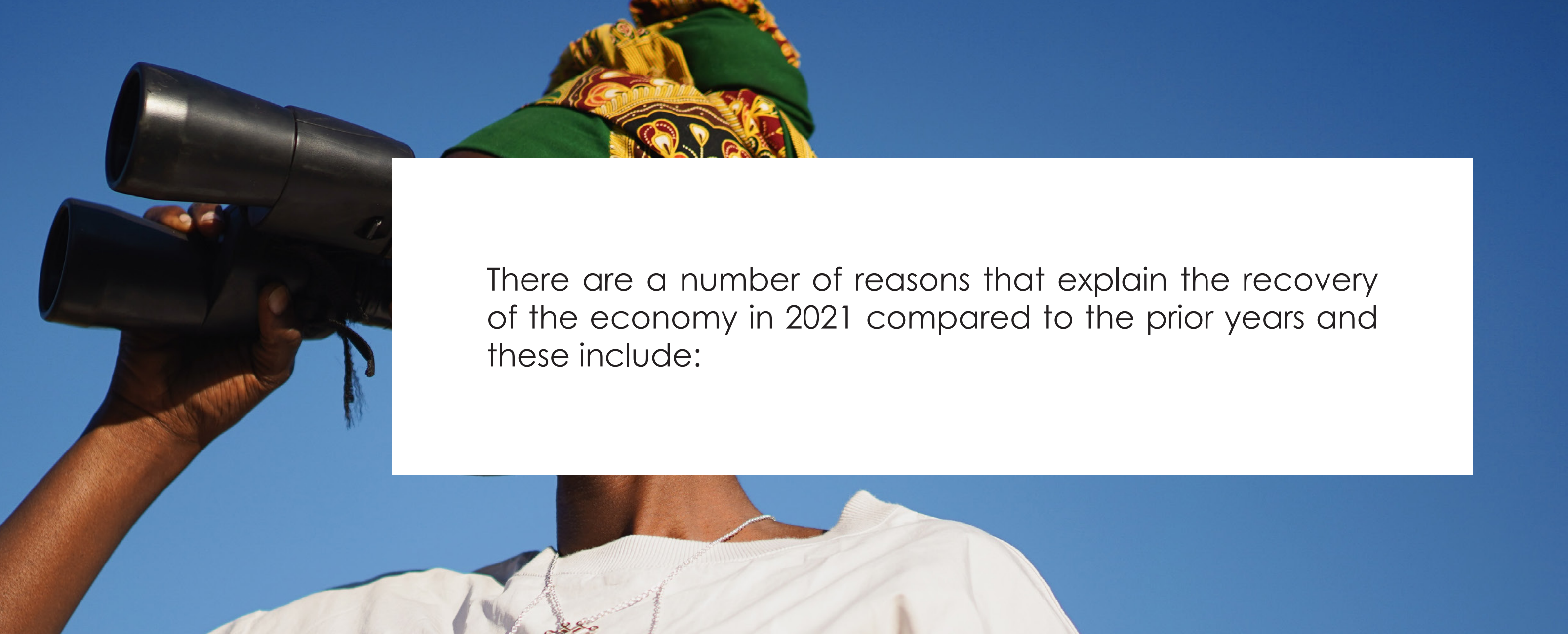
2. Prospects for 2022 and Vision 2030: A retrospect into 2021

The year 2021 was generally a turning point as far as a reversal of the economic slowdown that had been witnessed in 2019 and 2020 is concerned. While official statistics have not yet been released by the Zimbabwe Statistics Agency (ZIMSTAT) to confirm the actual GDP level for 2021, there is a general convergence among different stakeholders that there was real GDP growth in 2021, ranging from a low estimate of 3.1% by the IMF to the official Zimbabwe estimate of 7.1% (Figure 1).

Figure 1: Real GDP in Zimbabwe is estimated to have grown by levels ranging from 3.1% to 7.8% in 2021



Source: ZIMSTAT (unless stated)



There are a number of reasons that explain the recovery of the economy in 2021 compared to the prior years and these include:

The deceleration from a very high inflation environment of 2020, which peaked at 837.5% in July 2020, to a normal high inflation environment, as inflation ended the year 2021 at 60.7%;

A favourable 2020/21 rainfall season, which is estimated to have seen the share of the Agriculture, Hunting and Fishing and forestry sector in GDP growing by 36.2%;

Higher international mineral commodity prices, which occurred at a time when there was recovery in mining by about 3.4% overall, with gold standing out at an increase of 50%

A strong manufacturing recovery, anchored by access to foreign currency at the Dutch Foreign Currency Auction, where US$1.97 billion was allocated in 2021, with 43% of this going to manufacturing sector for raw materials.

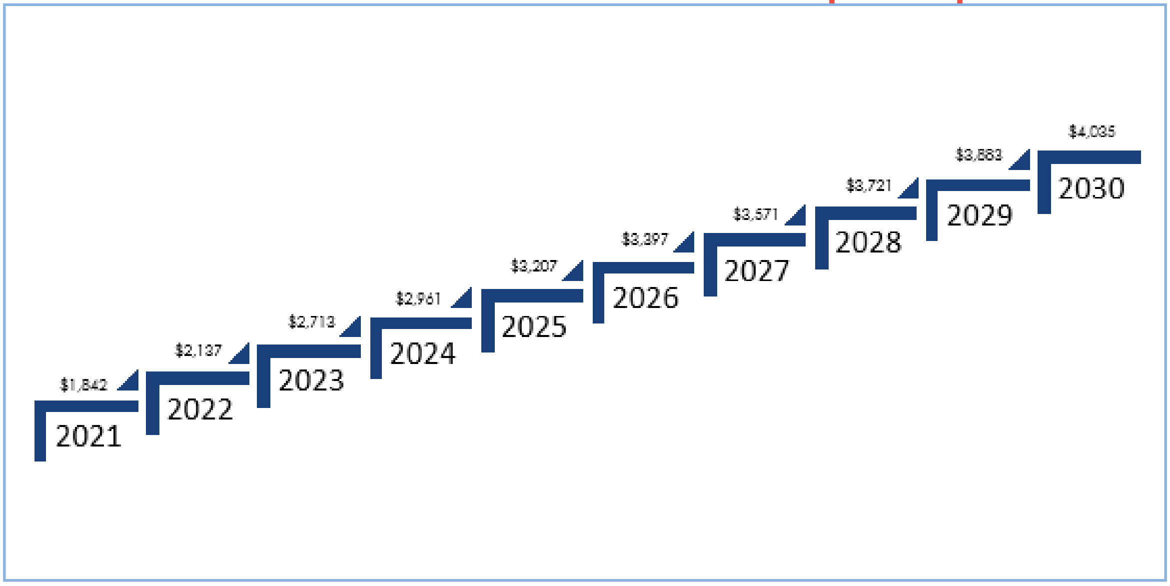
However, 2021 had some missteps as an anchor for NDS1 and Vision 2030

The economic performance of the year 2021 also needs to be understood from the context that the year marked the beginning of the implementation of the National Development Strategy 1 (NDS1). The national Vision 2030; "Towards a Prosperous & Empowered Upper Middle-Income Society by 2030" was broken down into three National Development Plans as follows:

- the short-term Transitional Stabilisation Programme (2018-2020);
- the National Development Strategy 1 (2021-2025);
- National Development Strategy 2 (2026-2030).

NDS1 has a clear roadmap in terms of GDP growth in pursuit of Vision 2030, which commenced in 2021 (Figure 2). This means that the deviation of the actual performance from 2021 is more likely to derail the whole path. In terms of GNI per capita, which is the yardstick for the status of the economy, the NDS1 expects the following to be the path towards an upper middle-income economy:

Figure 2: NDS1 has a clear trajectory towards Vision 2030 in terms of GNI per capita



Source: NDS1

To anchor this growth trajectory in GNI per capita, the NDS1 identifies the following as critical:

- Attainment of real GDP growth of 7.4% for 2021 and 5.5% for 2022
- Achievement of an inflation rate (annual average) of 134.8% for 2021 and 23.7% for 2022
- Having only 24.5% and 19.2% of the population being in poverty for 2021 and 2022.

However, there are some few areas of concern based on the actual 2021 performance and the expected journey towards Vision 2030, which include the following:

While the expected real GDP growth for the Vision 2030 journey is still within government estimates (although well above IMF and World Bank estimates), the average inflation rate for 2021 was 143.27%, which was above expectations. The forecast for 2022 is an annual average of 32.6%, which is also above the NDS1 target of 23.7%.

Government official estimates for 2021 was that GNI per capita was about US$1,261.97, which is slightly below the NDS1 roadmap expectations. For 2022, the revised forecast by government is US$1,303.55 which will be well below the US$2,137 NDS1 roadmap.

Thus, while the year 2021 was generally characterized by economic growth, the growth levels are below those that would be expected for Zimbabwe to remain on course to the attainment of the Vision 2030 goal. This means that there are a lot of expectations on 2022 to help in realigning the path towards the envisaged trajectory.

Inflation remained the biggest threat in 2021 and threatens prospects for 2022

The year 2021 was also characterized by a deceleration of inflation between January and August, with inflation falling from 362.6% to 50.3%. However, the inflationary pressures began to emerge from September 2021. The policy targets of between 25% and 35% end of year inflation, which had been made based on the observed downward trajectory, ended up being missed, as inflation closed the year at 60.7%. The revised end of year inflation policy target of between 52% and 58%, which were made in November 2021 at the announcement of the National Budget, also ended up being missed.

The missing of inflation targets simply underlines that the year 2022 inherited an inflation challenge which requires bold and decisive policy action to be tamed. Thus, the extent to which new measures on inflation will be undertaken in 2022 would be instrumental in defining the success of the authorities to control it.

KDV BEDDING

SPINAL SLEEP SYSTEM

A Unique Sleeping Experience

Founded in 1995, KDV Bedding's objective has been to revolutionise and realise the full potential of producing a top quality sleep solution. In most products and ranges we have reached this potential yet we continuously strive to find the means to "improve.and advance the sleep and lives of all." Through research, innovation and development of new products, we have become the leading bedding manufacturer in Zimbabwe.
At KDV Bedding we understand the importance of a good night's sleep. Even more so, we understand the cost implications on each family, and in this regard, we have developed bed ranges to ensure that across the population divide everyone is able to own a quality sleep-solution from. KDV Bedding
As experts in the field of bedding, we continue to strive for our initial objective, which is why we are market leaders, "that is to produce the very best sleep solution for all our customers.
KDV Bedding's CEO & MD brings with them 27 years of experience in the bedding industry and 22 years in top flight management. .
Both are actively involved in all aspects of business, especially in development of new innovative products testament to the development of "Spinal Sleep System", this is both unique to Zimbabwe and the world. The company's intention is to introduce this dynamic brand to the world through export.
We are partially integrated wherein we produce our own foam and spring units - by this we are in total control of the quality of our beds. This also means we can tailor make to special measurements and different comfort levels especially for our consumers who need that extra care with spinal and muscles ailments (i.e sciatica).
KDV Bedding initially supplied close to 50 retail outlets, now have grown to around 270 retail outlets and various hotel chains. The back-bone of our success has been customers' branch networks- nationwide, allowing us to enhance our presence and increased sales.
Due to the increase in demand of our products on shop-floors we have found it critically valuable to expand and open our sister-company in July 2017, which its sole function is bases and spring units' production.
Due to the increase in demand we continue to expand and are always looking to enhance our technological ability, constantly acquiring state of the art machinery combined with improved efficiencies and work flows.

KDV Bedding has a strong marketing team who assists with all their customers' personal requirements and information about their unique ranges. KDV Bedding strives to build solid and fruitful relationships with all its customers to gain the competitive edge. We are actively involved in various promotions through-out the year with all our clients to ensure we meet consumers' needs and demands and the important aspect- maintaining the excitement on the shop floors.
Have we realised how Important sleep is ?
Do you realise the a good night's sleep plays a vital role in promoting physical and emotional health and longevity.
FACT…. You Sleep approximately 1/3 of your life. So shop wisely!
To ensure you have the "best" sleep-system please take into cognisense when making your selection that each of the products have 3 definitive characteristics : Recommended combined weight, Comfort level and Price.
People who generally sleep on their back- need a firm bed
People who generally sleep on their side – need a moderately-firm bed
People who sleep on their abdomen –need a gentle-firm bed

Hint… you need to lie on the beds and "test your comfort!"

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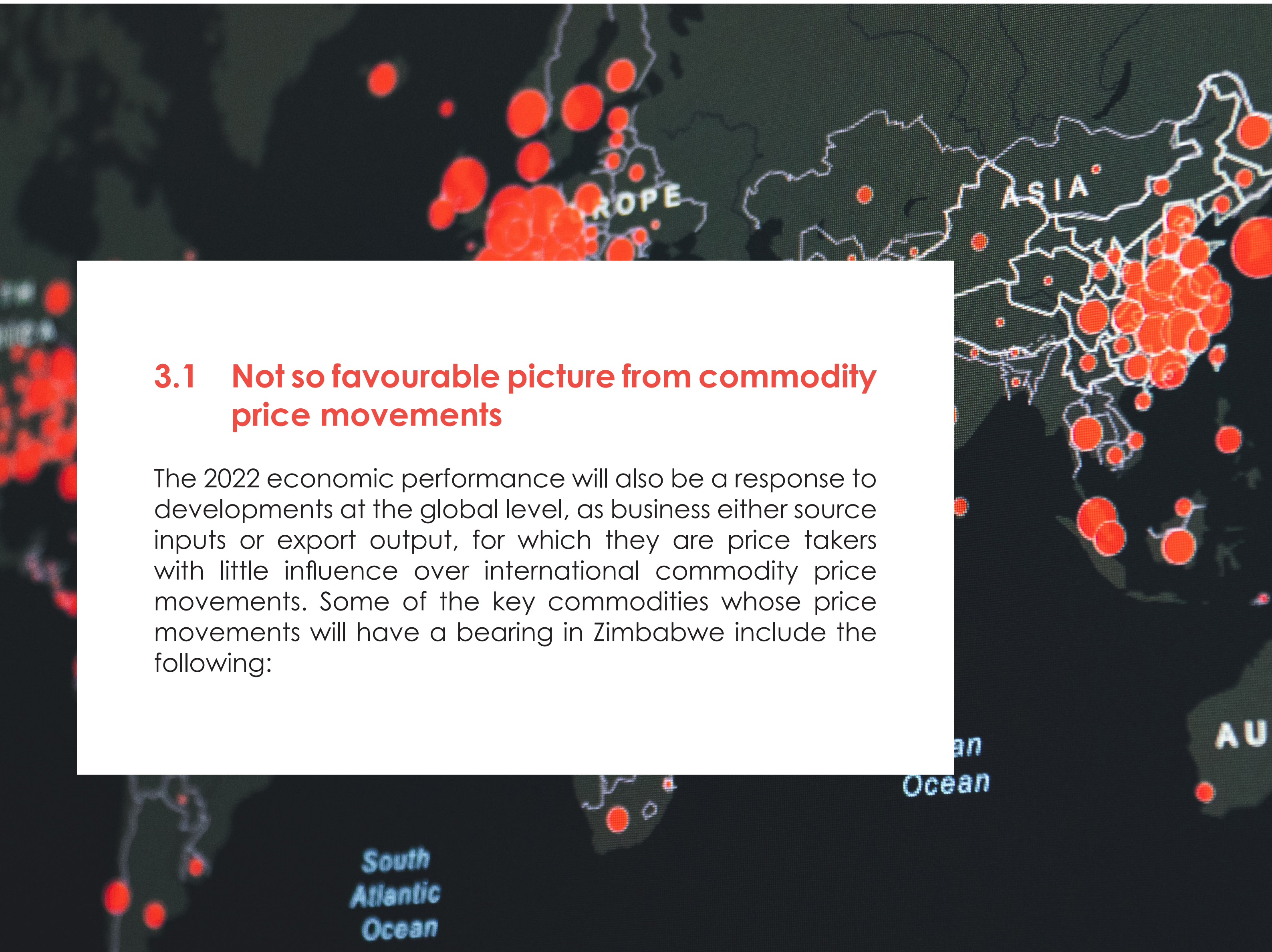
The Leading Quality Bed Manufacturer in Zimbabwe

3. Global factors generally threatening Zimbabwe 2022 Economic Prospects

The impact of global factors on the Zimbabwe economy is on several fronts which include the following:

Ø Commodity price movements
Ø Russia/Ukraine conflict
Ø Global inflation



3.1 Not so favourable picture from commodity price movements

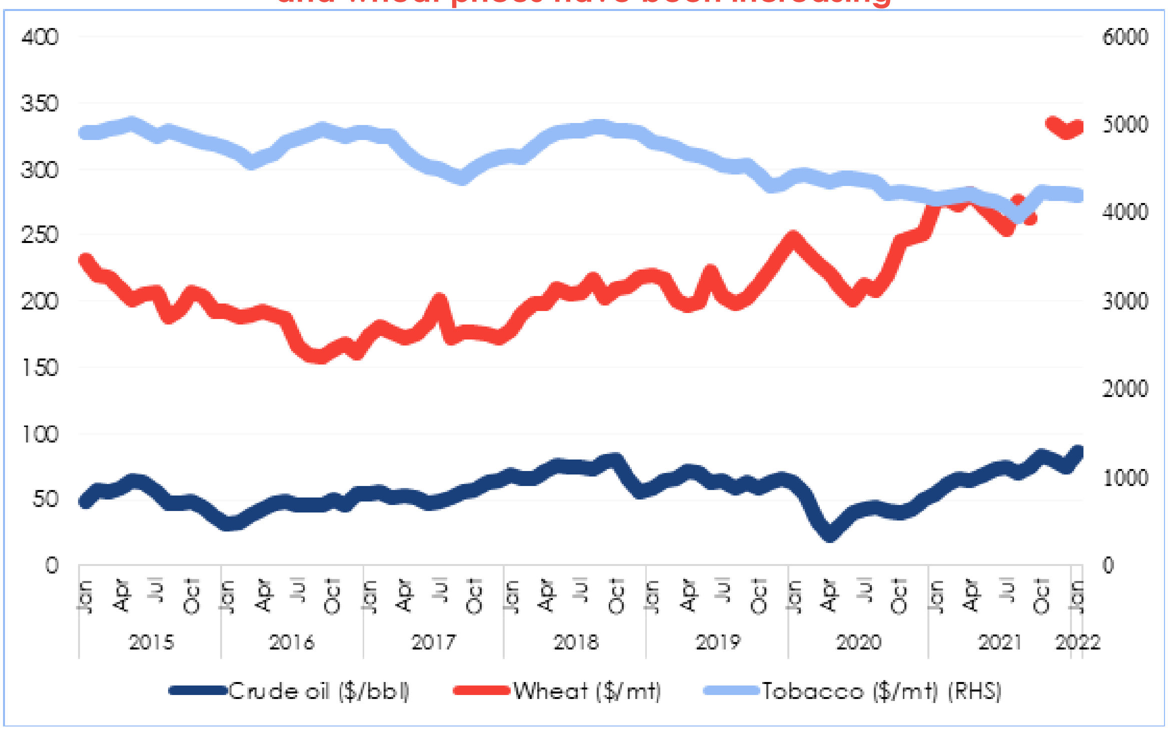
The 2022 economic performance will also be a response to developments at the global level, as business either source inputs or export output, for which they are price takers with little influence over international commodity price movements. Some of the key commodities whose price movements will have a bearing in Zimbabwe include the following:

a. Crude oil

The fuel price formula which the Zimbabwe Energy Regulatory Authority (ZERA) uses is designed to capture any changes in fuel prices at the international level.

Since reaching a five year low of US$23.34 per barrel in April 2020, crude oil prices have been rising significantly until about US$85.53 per barrel in January 2022 (Figure 3), which is a seven-year record high. While some shocks (including disruptions caused by Hurricane Ida in the United States) could explain the price momentum, the decision by OPEC not to increase production to meet rising demand and request for increases by some oil-importing countries largely reflect the upward momentum. The increase in natural gas prices also increased demand for oil as a substitute product in heating.

Figure 3: Tobacco prices have been falling, while crude oil and wheat prices have been increasing



Source: World Bank Pink Sheet

The implication is that Zimbabwe should brace for high fuel prices in 2022, which would have negative implications on production costs and inflation. **Given that taxation constitutes a large component of the fuel prices, treasury can reduce this impact by a proportionate decrease in fuel taxation with the aim of keeping fuel prices at their current levels**

b. Wheat prices

Zimbabwe is a net importer of wheat and wheat prices have a bearing on bread costs as well as other flour-based products. Since August 2020, wheat prices have been increasing and the price of about US$332 per metric tonne recorded in January 2022 (Figure 3) is a five-year record highest. Thus, the inflation targets for Zimbabwe could be affected by this development.

c. Tobacco

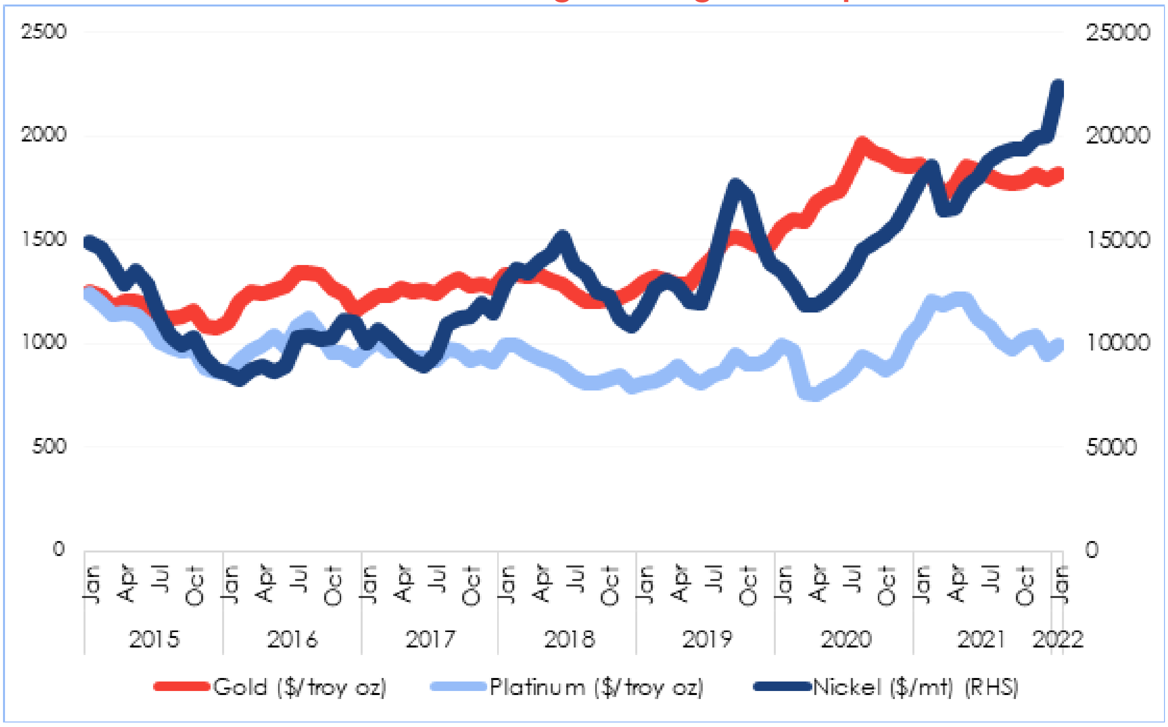
Tobacco is the largest foreign currency earner for Zimbabwe among agriculture products. However, the country is a price taker for tobacco and movements in tobacco prices affect Zimbabwe's income earning potential.

Tobacco prices have been generally displaying a falling trend since December 2018 (Figure 3). The recovery registered in October 2021 of US$4,222 per metric tonne was the highest in 2021. However, this could not be sustained, as the prices had fallen to US$4,201 in January 2022. The falling tobacco prices imply that the hectarage for tobacco needs to expand above the 2021 levels in 2022 to counter the likely negative impact on international price movements.

d. Mineral prices

Minerals constitute the largest component of Zimbabwe's export basket. The revenues from mining are generally very susceptible to changes in the mineral prices. Since June 2021, platinum prices have been falling and the small recovery in January 2022 could not take it back to the January 2021 levels (Figure 4). After reaching a record highest level in five years in August 2020, gold prices have also been characterised by a falling trend. Gold constitutes the single largest export commodity for Zimbabwe and the falling prices reduced revenues considerably. The outlook for gold might not be encouraging as an anchor for the growth of the Zimbabwe economy in 2022. However, the economy will be buoyed up by nickel prices, which have continued on an upward trajectory since March 2021. In January 2022, nickel prices recorded a five-year record high level of US$22,355 per metric tonne.

Figure 4: Nickel prices have a positive outlook while the outlook is not great for gold and platinum



Source: World Bank Pink Sheet

3.2 Economic outlook also affected by the Russia /Ukraine conflict

In February 2022, Russia attacked Ukraine which created economic impacts to be felt across the whole world. The impact of the Russia-Ukraine conflict has the potential to derail the economic outlook for Zimbabwe, especially since policy had not taken this into account. The impact of the war will filter through into Zimbabwe based on the following avenues:

a. Impact on oil prices

The attack of Ukraine occurred when oil prices were already registering a spike. On 24 February 2022, Brent crude prices breached the $100 per barrel mark, which was a record high since September 2014. The impact of the war on prices is basically from three fronts:

- Fears of supply side disruptions due to the war creates increased demand and puts pressure on available stocks resulting in high prices
- Limited supply, as Russia is the world's second-largest oil producer. Given the imposition of sanctions against Russia, oil exports from Russia will be limited.
- Russia is the world's largest producer of natural gas and limited supply due to the war is likely to see increased demand for oil as an alternative for heating. This increases demand and puts further pressure on oil prices.

The Zimbabwe economy will not be spared from the effects of the increase in oil prices.

b. Ammonia shocks

Russia was the second largest producer of ammonia after China while Ukraine was ranked 18th based on production statistics for 2020[1]. The war is going to contract supply of ammonia and hence cause a spike in its prices. Zimbabwe is a net importer of ammonia, especially since the closure of the electrolysis plant at Sable Chemicals in Kwekwe. The high prices of ammonia are imminent, which will be translated into high prices of fertiliser, with a huge bearing on the production costs for the 2022/23 agriculture season.

c. Wheat supplies

Russia is the third largest producer of wheat while Ukraine is ranked 9th in the world[2]. The two countries combined account for about 15% of the world's wheat production. The war will disrupt supply chains and affect wheat delivery into Zimbabwe. In addition, the challenges in accessing Russian and Ukrainian markets will also result in high prices for wheat as demand increases. Thus, this will also create inflation build ups in Zimbabwe.

d. Russian investments in Zimbabwe

The war has also seen the imposition of sanctions on Russia and Russian firms. The wide-ranging economic sanctions, which include limited access to financial markets in Europe and limitations and exclusion from the SWIFT banking platform presents challenges for Russian firms to receive international payments. Zimbabwe currently enjoys a good relationship with Russia, which has seen Russian investors responding positively to investments in Zimbabwe. Firms that have invested into the Zimbabwe economy include Uralchem, a fertilizer producer, VI Holdings (mining) and Alrosa (mining). The war will make it difficult for the mining firms to complete the planned investments into their Zimbabwe projects, with the potential to slow down economic activity.

1 https://www.statista.com/statistics/1266244/global-ammonia-production-by-country
2 https://worldpopulationreview.com/country-rankings/wheat-production-by-country

3.3 Threats from imported inflation

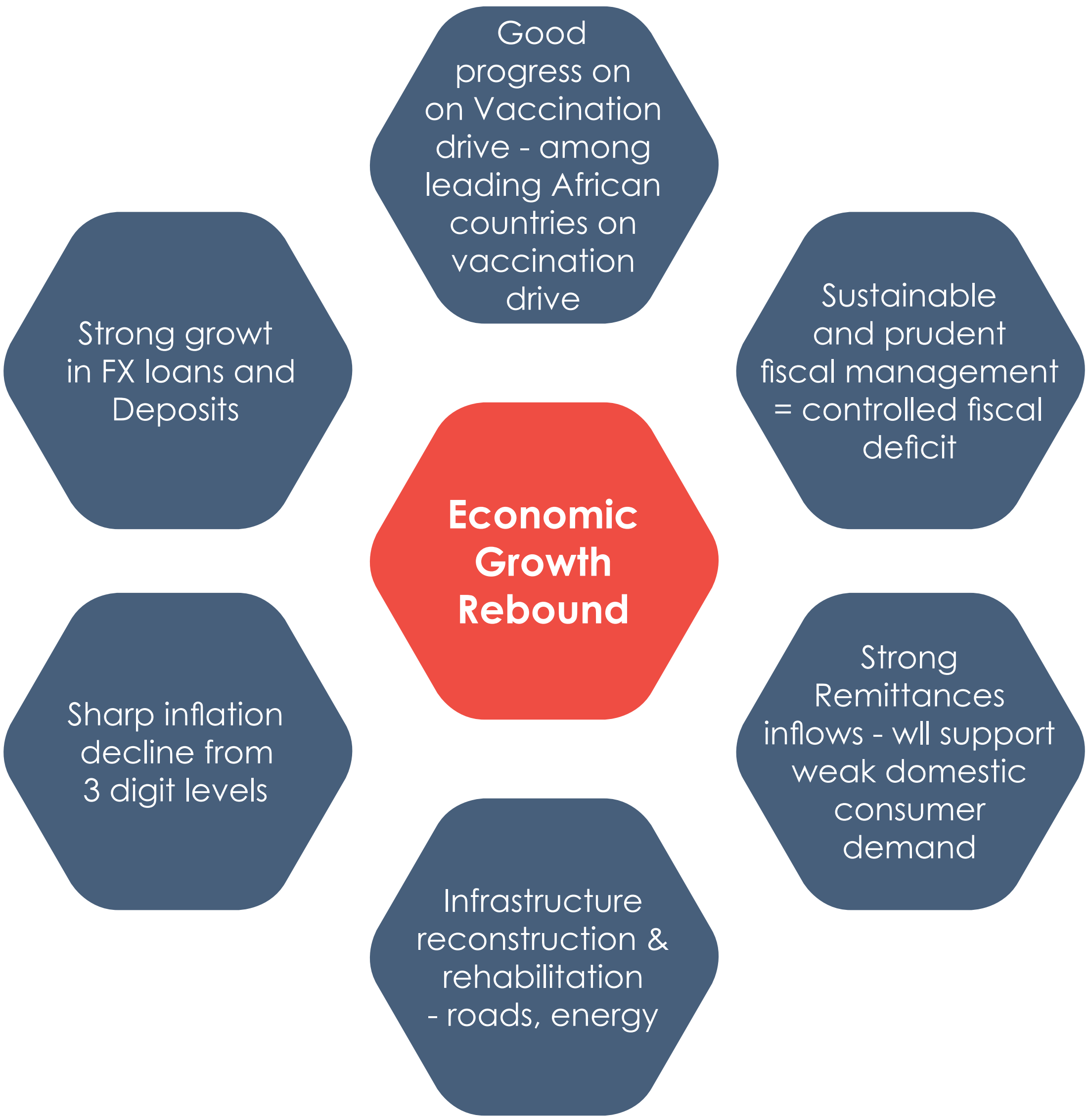
The year 2022 also started on a bad note as the world witnessed a spike in prices. The spike in prices were mainly a result of the effects of the COVID-19 and its variants, which created supply shocks. This limited output and created excess demand, resulting in high prices. This in turn also caused pressure for wage rises, which in turn further increased product prices.

Price hikes were recorded in the food and drink, tech equipment, tourism & travel, construction materials, industrial services, commercial & professional services, as well as pharmaceuticals. Since Zimbabwe is a net importer of products in almost all these sectors, the country will also suffer inflationary pressures from imported inflation. High input prices are also likely to further affect the competitiveness of Zimbabwe products and slow down the recovery in the manufacturing sector.

4. Fiscal and monetary policy implications on business economic prospects for 2022

One of the key challenges always facing business and economic growth prospects in the country is policy misalignments, disharmony and inconsistencies. Therefore, 2022 business and economic growth prospects should be anchored on consistent and aligned policies, especially fiscal and monetary policies. There have been some positive outcomes arising from improved fiscal and monetary policy space since 2018, but additional policy measures are still critical to push the economy beyond stabilization phase into the growth trajectory. There are a number of positive policy outcomes that have contributed to business and economic growth rebound (Figure 5). However, the main topical issue for 2022 for fiscal and monetary policy authorities, as like the previous years will be on **foreign currency management and exchange rate stability.** The current resurgence in inflation reflects the widening parallel market premium, compounded by widespread indexation of prices to the parallel market.

Figure 5: The positive prospects of the economy arise from a number of factors



Thus, the Macro Policy matrix (fiscal and monetary) must seek to achieve sustainable internal and external equilibrium – create broad balance between aggregate demand and aggregate supply, which is necessary to dissipate domestic inflationary pressures in 2022.

In particular, the Policy matrix must impact on the economy to occasion simultaneous balance in the financial markets (both foreign exchange and local money markets). Any disequilibria in the money and foreign exchange markets, typically manifest as inflation, through price escalations in the goods markets.

In the event that the current policy scenario is sustained with no variation in 2022, the expected economy wide implications will entail among other issues, sustained pressure on the exchange rate, growing local currency disuse, increasing recourse to the US dollar; and rising inflation.

Contradictions regarding Re-dollarisation or De-dollarisation Route

The authorities should also be seized with providing a clear and unambiguous roadmap on whether the economy is **re-dollarising or de-dollarising.** Contradicting policy announcements on this matter further dampens business and economic prospects for 2022. For instance, at the end of 2021, the fiscal authorities announced measures aimed at promoting the increase in use of the local currency, on the other hand, announcements were also made that saw a chunk of civil service salaries now being paid in US$, putting pressure on wage demands in the private sector to follow suit.

MEASURES TO INCREASE USE OF ZWL BY MINISTER OF FINANCE

- Exporters would to pay up to 40% of their taxes in local currency
- Miners to pay 50% of royalties in local currency
- 50% vehicle import duty now payable in local currency
- Payment of fuel at designated service stations in Z$

MEASURES THAT PROMOTE USE OF US$ BY GOVERNMENT

- Payment of civil service salaries in US$
- Payment of US$50 to selected group of people in the economy
- Increased distortions in the forex market - varied surrender requirements

Authorities must therefore, do everything to prevent the collapse of the local currency. Losing the local currency has most damaging implications on the economy, growth and job creation.

The currency volatility and exchange rate pressure which has persisted for a long time need to be immediately reversed through appropriate policies. If local currency vulnerability remain elevated, there is growing possibility of currency loss/ Increasing disuse of ZWL.

The following is a summary analysis of the impact of fiscal and monetary policies on business and economic growth prospects.

Fiscal and Monetary Policy Impact

Fiscal Policy Measures	Impact	Monetary Policy Measures	Impact
Quasi-Fiscal operations Huge Gvt Payments	Huge costs of stabilization Short-term monetary instruments complicate liquidity management on maturity	Delayed implementation of agreed FX auction framework Varied FX surrender requirements	Undermining viability of generators of FX Equivalent to multiple exchange rates – increases distortions
Promotion of Z$ usage through Z$ taxes & Z$ fuel	Addresses perceptions that the Authorities are increasing dollarisation of the economy	Tight liquidity conditions	Slow down in lending by banks Lending rates to remain high
Promotion on the use of US$ - Civil Servants salary package	Expanded US$ obligations Promotion of dollarization – policy contradictions	Inflation sticky downwards – trapped in a chronic inflation zone	Money market returns to remain negative in real terms
Expanded FX tax base - Exporters will pay taxes: 40% in Z$ and 60% in FX	Exchange rate misalignments reduce tax compliance		

Conclusion

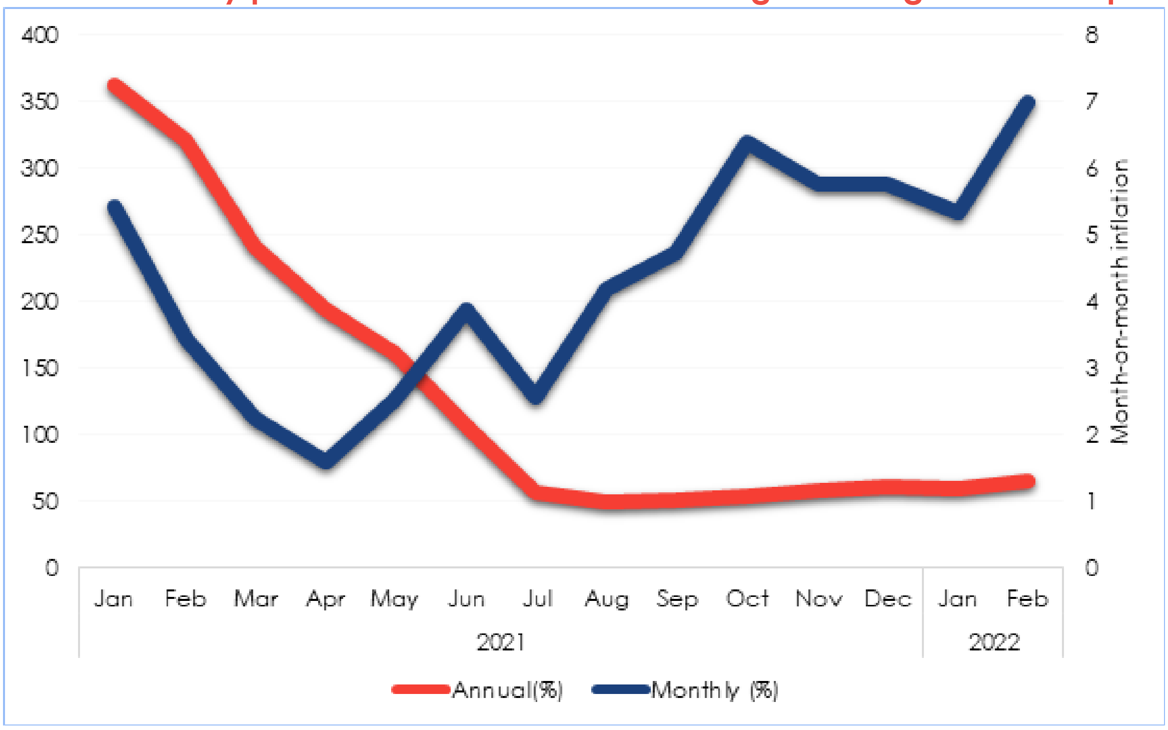
Forced dollarization of economy will be detrimental to many businesses. The only option is to support the local currency

Operating conditions appear more challenging in 2022 compared to 2021

5. Currency and inflation expectations for 2022

The major threat to Zimbabwe's economic prospects is its inability to successfully manage currency and inflation, which are intertwined. The base effect, which made it easy for Zimbabwe to register rapid deceleration in inflation from a peak of 837.5% in July 2020 ended in July 2021 when inflation was 56.4%. Since September 2021, inflationary pressures began to emerge, which has seen annual inflation increasing from 50.2% in August 2021 to 66.1% in February 2022 (Figure 6). The month-on-month inflation is also registering an upward trend, increasing to a record high since August 2020.

Figure 6: Inflationary pressures have resurfaced calling for strong disinflation policies

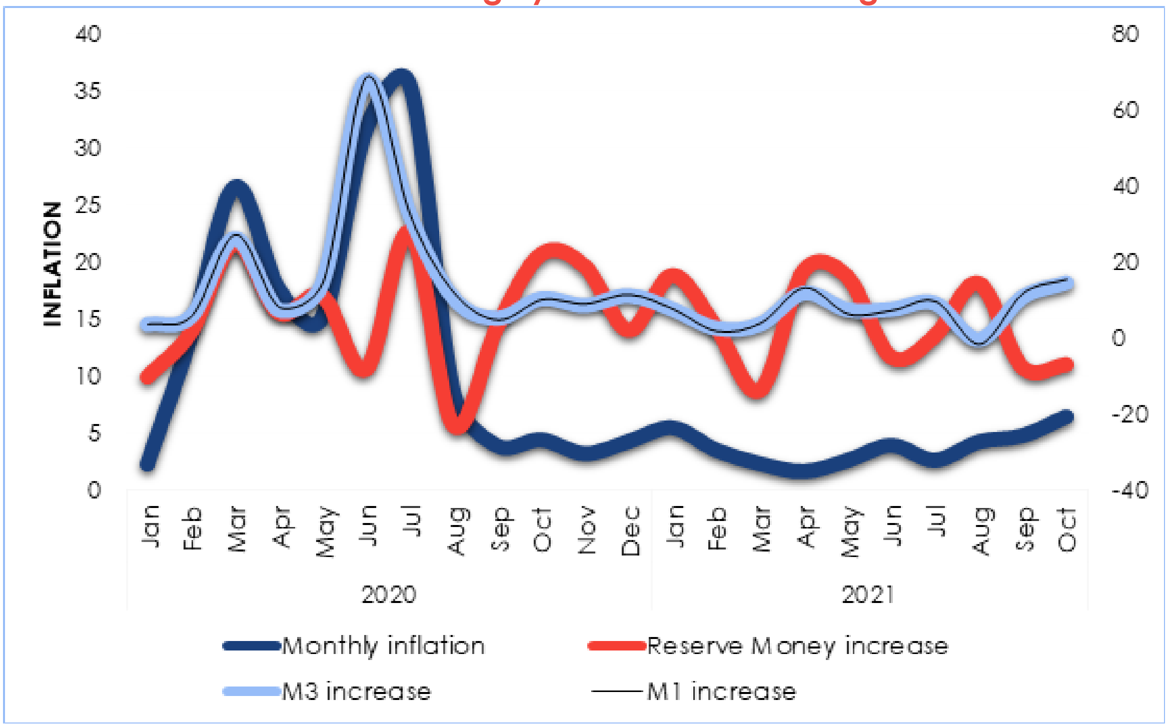


Source: ZIMSTAT

The inflation trends generally underline that inflation is not yet under control in Zimbabwe. Given the pressures from the global developments, inflation is expected to only worsen in the outlook, unless there are new measures adopted to deal with the challenge.

In addition to issues at the global level which are generally beyond the control of policy markers, inflation in Zimbabwe is highly correlated to the growth in money supply, especially M1 (Figure 7). This generally implies that the ability of the policy makers to control the growth of money supply beyond reserve money will be critical to stopping the inflation momentum. While the RBZ has been doing well in controlling reserve money growth, there is still need to continue with mechanisms that will stop the growth on broad money, especially coming up with financing mechanisms for infrastructure, agriculture and subsidies that do not result in rapid growth of money supply. Thus, in the outlook, inflationary pressures are expected to remain in place.

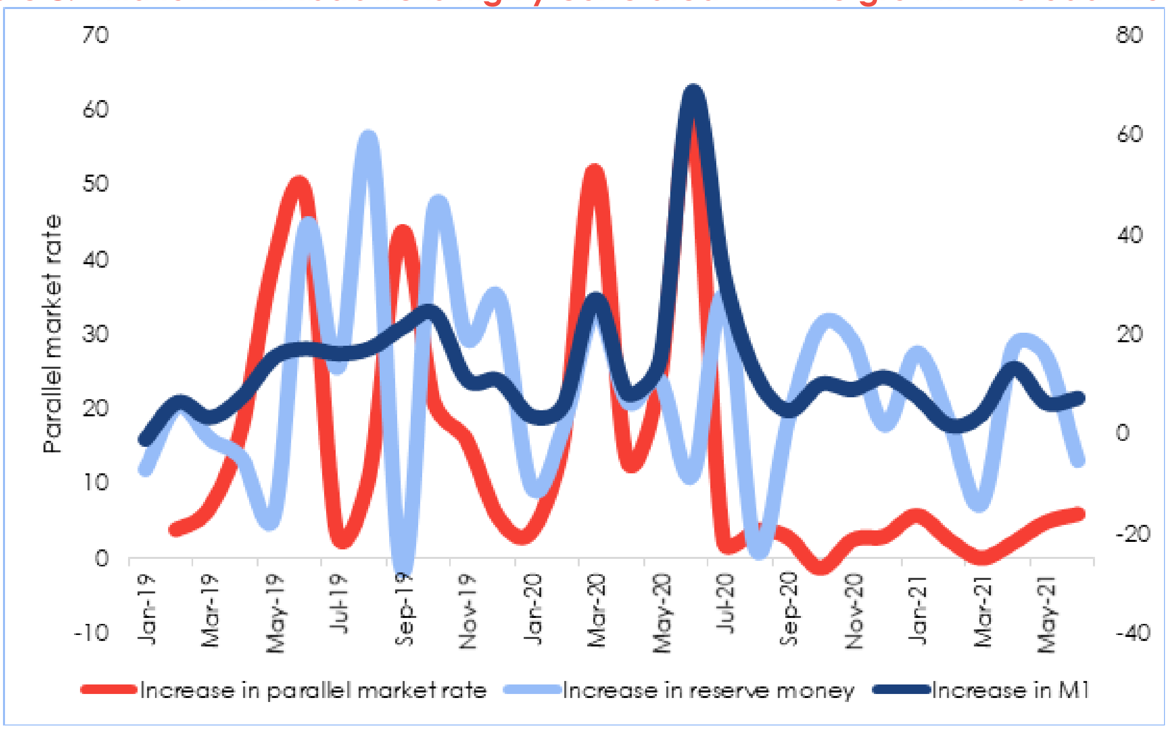
Figure 7: Inflation in Zimbabwe is highly correlated with the growth in broad money



Source: ZIMSTAT

Also critical in the management of inflation is the exchange rate. Inflation in Zimbabwe is widely believed to be caused by a huge parallel market premium, as prices are mainly indexed to the parallel market rate. The parallel market rate movements also respond to the increase in broad money, especially since there is a high correlation between M1 movements and the parallel market rate movements (Figure 8). Thus, what is also critical in managing the parallel market in constraining the growth rate of broad money.

Figure 8: Inflation in Zimbabwe is highly correlated with the growth in broad money



Source: ZIMSTAT

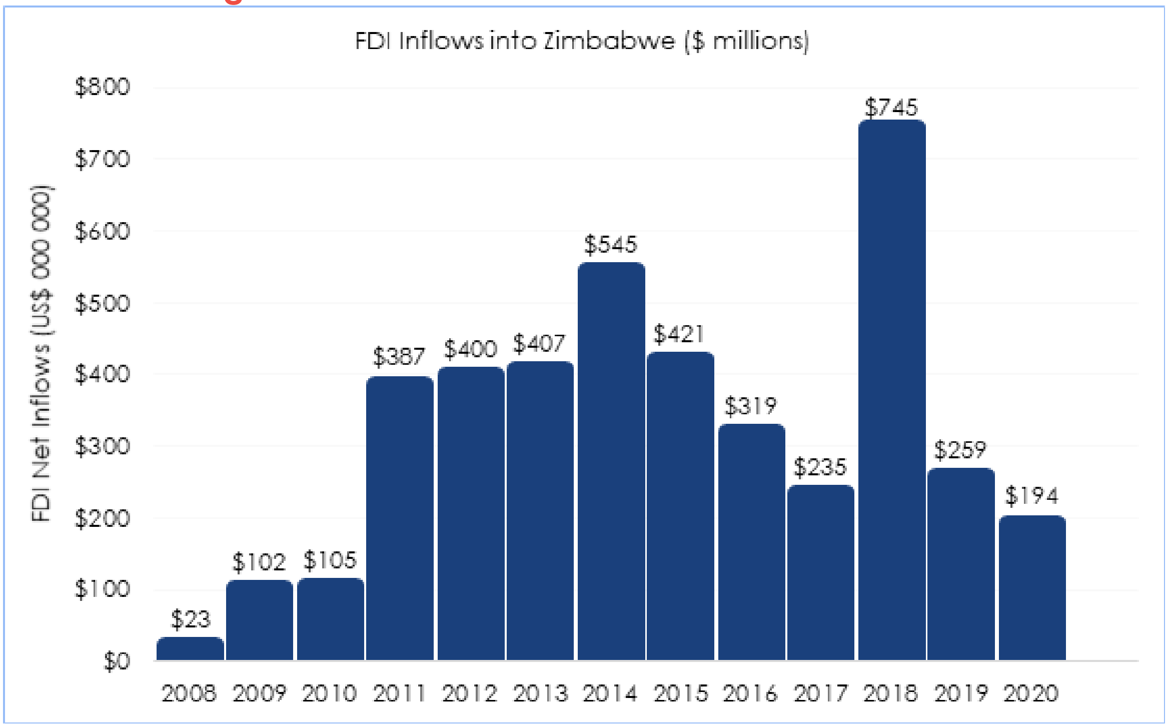
Thus, in the outlook, it is expected that inflation and currency management challenges will continue to characterize the year 2022.

6. Investment Outlook

Zimbabwe's investment outlook for 2022 remains highly promising, despite the lack of closure on key aspects such as land tenure, foreign exchange market regulations and bottlenecks on the repatriation of dividends or movement of capital out of the country. Recently, two Chinese entities have made forays to secure Lithium exports from Zimbabwe through buying lithium mines locally. The Zhejiang Huayou Cobalt company procured Prospect Resources' Arcadia Lithium Mine for US$422 million while Sinomine will buy Bikita Minerals for US$180 million. Zimbabwe has abundant reserves of Lithium, which is a key component of EV Batteries.

Foreign investments into the country are still biased towards the mining sector and the trend will likely continue in 2022 and beyond. The bullish prices for Platinum, Gold, Lithium and Nickel will drive investor interest in mining as the commodities are export oriented. Besides the mining sector, other sectors of the economy such as retail and wholesale, manufacturing, tourism, petroleum retailing, and real estate have witnessed significant local and foreign investment as well. In 2020, the country received US$194 million and the 2021 figure will be in the same region.

Figure 9: FDI Trend in Zimbabwe from 2008 to 2020



Source: Ministry of Finance

The main attractions for the local economy are in the multi-currency regime which allows for return on investment to be made in foreign currency.

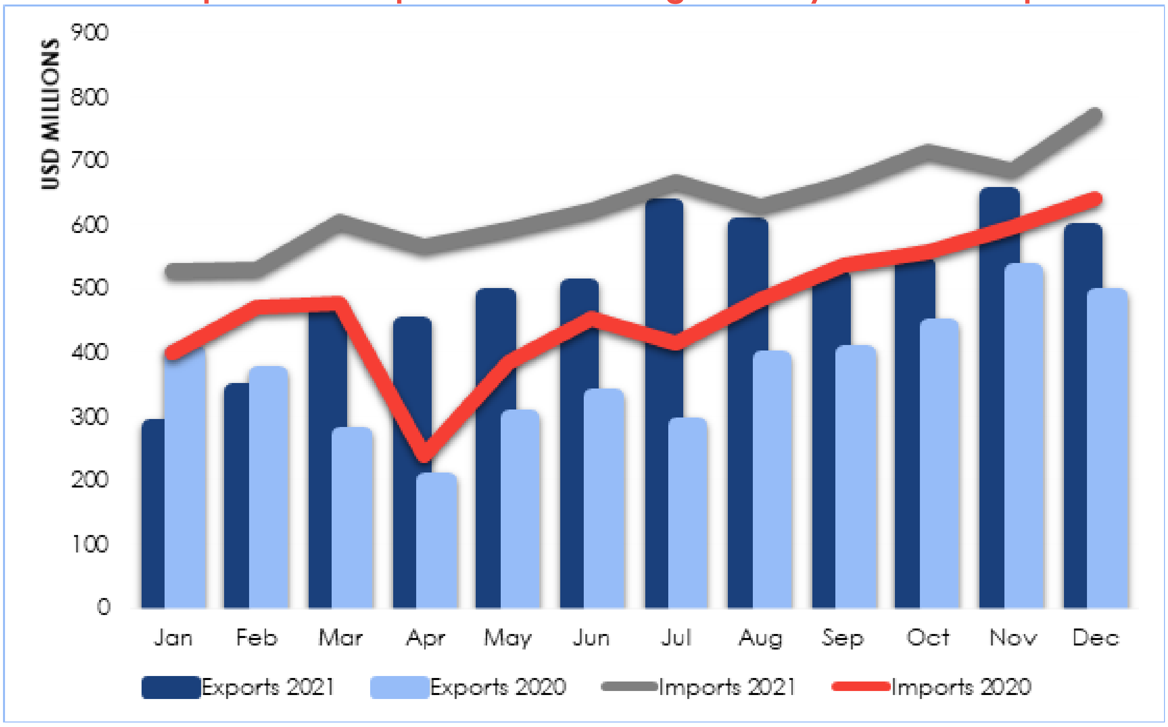
Similarly, diaspora remittances remain high with the country receiving US$1.4 billion from Zimbabweans based in diaspora. The remittances are a key driver to domestic demand at household level.

7. External Sector Outlook

Zimbabwe continues to record growth in exports, with 2021 statistics showing that the country's exports increased over the whole period in 2021 compared to 2020 (Figure 10). The exports were mainly driven by increases in mineral and agriculture exports, while manufactured exports remained subdued weighed down by l competitiveness and viability challenges arising from the 40% surrender requirement policy.

However, as exports grew, so did imports, with the country importing goods worth about US$7.57 billion in 2021, compared to US$5.68 billion in 2020, recording a 33.3% jump. Thus, the trade deficit for 2021 was about USD1.54 billion.

Figure 10: Both exports and imports increased significantly in 2021 compared to 2020

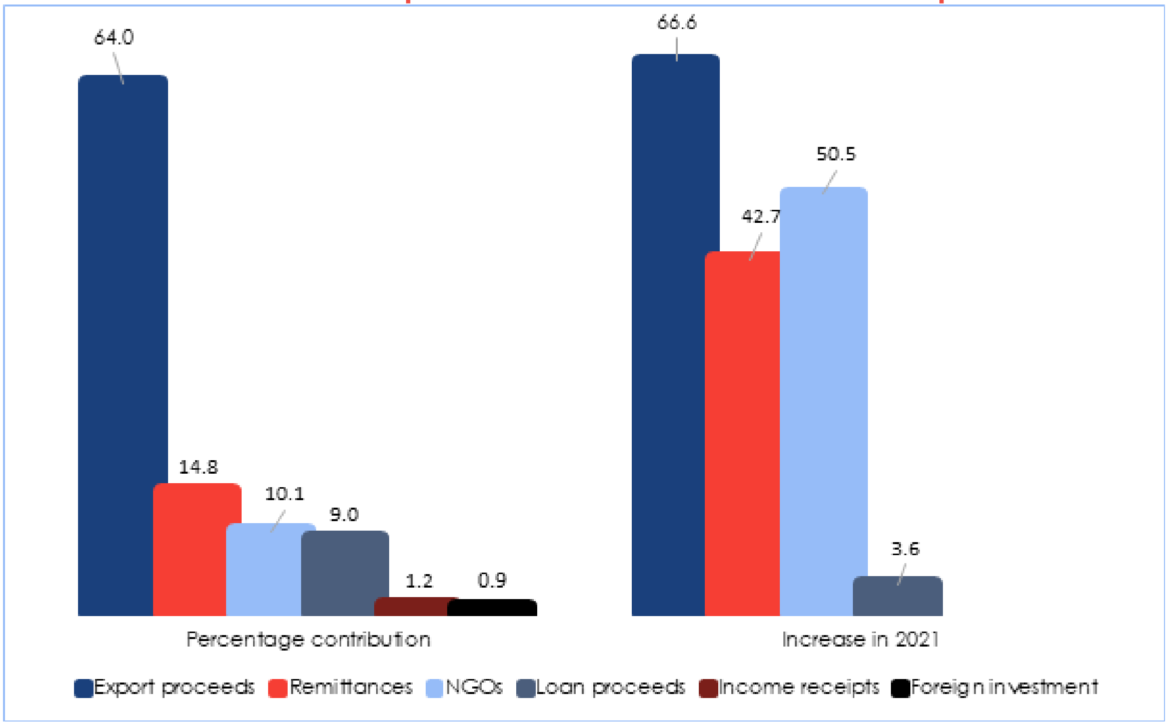


Source: ZIMSTAT

Although the country has a deficit in its trade balance, the current account remained in surplus, with preliminary estimates from the RBZ putting the surplus at US$926.8 million for 2021, which was an increase of about 36.6% compared to the current account surplus in 2020.

In the outlook, it is expected that the current account will remain in surplus. This is mainly due to the fact that the key drivers for the 2021 surplus are expected to continue to be in place. The current account surplus was mainly driven by export receipts, which constituted about 64% of export receipts in 2021. However, export receipts in 2021 increased by 66.6% compared to the same period in 2020 (Figure 10). Although diaspora remittances constituted only about 14.8% of total foreign currency receipts, they increased by 42.7% compared to the same period in 2020. Significant increases were also recorded in NGO foreign currency proceeds, which increased by more than 50%. It is expected that this momentum will be carried over into 2022.

Figure 11: Exports, diaspora remittances and NGO receipts anchor the current account surplus



Source: RBZ

8. Mining Sector Outlook

The mining sector is aspiring to be a 12 billion economy by 2030. In 2021 the mining sector is expected to grow by 3.4% from a Covid 19 induced negative growth of 9% in 2020.The sector generated a record US$5.2 billion in export earnings in 2021 which accounted for 83% of aggregate exports, this was on the back of improved performance by all minerals and firm commodity prices. According to the chamber of mines gold output increased by 50% in 2021.

In year 2022 the mining sector is expected to grow by 8%, on account of favourable commodity prices and improved output (Table 1). According to the 2021 State of Mining Industry Report, mining industry executives are planning to ramp up production by an average of 5% for PGMs to as high as 32% for the diamond sector, largely incentivised by the favourable commodity prices. Subsequently exports earnings export are expected to surpass US$5.5 billion in 2022. Average capacity utilisation for the mining industry is expected to increase by 3 percentage points from 80% in 2021 to 83% in 2022.

Table 1: Generally, mineral prices are expected to recover in 2022

Commodity	2021	2022f
Gold / oz	1,798	1,720
Platinum / oz	1,098	1,100
Palladium / oz	2,390	2,300
Nickel / mt	18,465	18,600
Chrome / mt	103	105

Source: RBZ

9. Agriculture Sector Outlook

In 2021 the agriculture sector grew by 36,2% on the back of a good 2020/2021 rain season. the 2022 National budget estimated a bumper harvest of over 3 million tonnes of grain in 2021. In 2022, the sector is projected to grow by a 5.1% attributable to expected favourable rainfall season and implementation of Government support programmes (Table 2). The livestock subsector is also expected to remain buoyant in support of this growth, on the back of good pastures and water availability.

However, the 2021/2022 season is not turning out to be a good season, with a lot of crops distressed due to lack of rainfall. The 2022 agriculture growth projections might be lower than the budget projections. The government have opened the importation of maize to private players in a bid to maintain strategic reserves in the face of the looming drought in 2022.

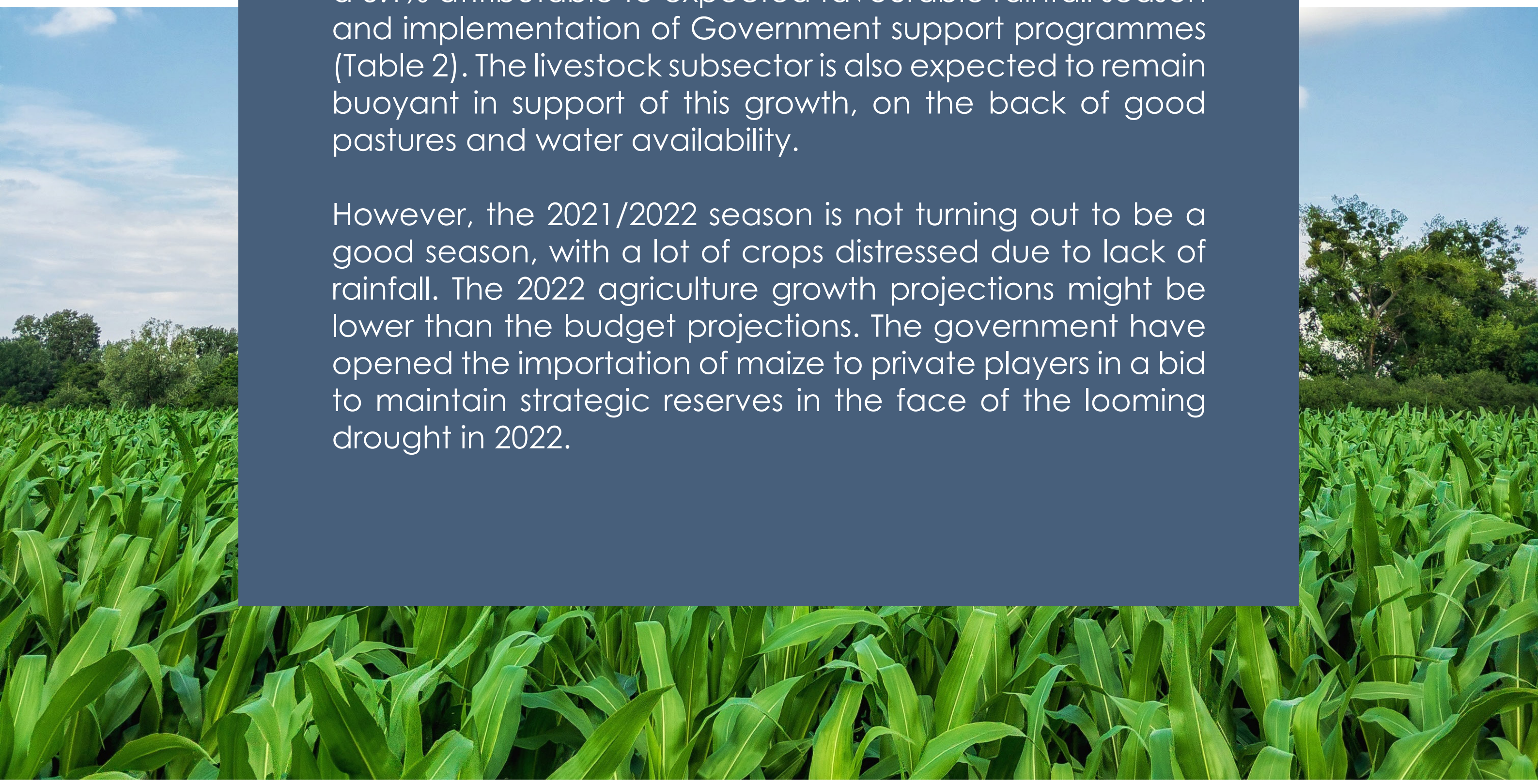


Table 2: Agriculture sector output (000 tonnes)

	2021	2022 Prj
Overall growth	36.2%	5.1%
Tobacco (flue cured)	210	218
Maize	2717	2502
Beef	67.76	71
Cotton	140	140
Sugar cane	4350	4500
Horticulture	98	105
Wheat	276	336
Soya beans	71	78

Source: Zimbabwe 2022 National Budget

10. Manufacturing Sector Outlook

According to the 2022 National budget, the manufacturing sector is expected to grow by 6.1% in 2021. Capacity utilisation is projected to be 61% in 2021 and it is in line with the trends being observed in the CZI Quarterly Business and Economic Intelligence Report. Capacity utilisation increased from 47% in the first quarter of 2021 to 54% in the second quarter of 2021. In 2022, manufacturing growth is expected to remain positive and firm at 5.5%.

To achieve the intended growth target of 5.5%, there is need for:

- Ø Macroeconomic stability
- Ø An efficient and effective foreign exchange market
- Ø Uninterrupted power supply
- Ø Policy consistency

It is difficult to ascertain the causality between capacity utilisation and GDP growth but they is a corelation between capacity utilisation and GDP growth (Figure 12). Share of locally manufactured goods measured by shelf space have been increasing, however, there is a growing consensus and effort on localisation & domestication of raw materials for local processing. The private sector and government must be seized with manufacturing for manufacturing, this will unlock massive potential in the economy and improve our balance of trade. The productive sector is retooling, supported by the Foreign Exchange Auction Market (60-70% of monies allocated on the auction are towards materials and equipment)

Figure 12: Corelation between Capacity utilisation and GDP growth

Source: CZI and ZIMSTAT

11. Key risks for 2022

A recent World Bank overview of Zimbabwe says the country's economy showed signs of recovery in 2021 and its economy grew by 5.1%. The World Bank and IMF both predict GDP growth above 5% for Zimbabwe in 2022, while both caution that decisive government action is needed for this to be attained. Growth is expected to strengthen further as the negative impacts of COVID-19 subside, global commodity prices firm, and export volumes grow. However, the country has notable risks that need to be managed. These include the risk of drought, power deficit, inflation and currency depreciation and auction market inefficiency.

Drought

Agriculture remains a critical sector for the local economy in terms of backward and forward linkages in the market, even though it has fallen below 8% in terms of economic output. However, Zimbabwe's overreliance on rain fed agriculture in the face of climate change has cost the nation dearly. The country has been a net importer of food for the past 2 decades and the country's import bill is dominated by grain imports with maize imports averaging 1.1 million Metric Tonnes (MT) per year in the last 10 years (Save for 2021 when rainfall improved). Therefore, a drought will disrupt various supply chains and create more demand for foreign currency. Critically, a drought will plunge millions into extreme poverty considering the current nutrition vulnerabilities.

Power Cuts

Zimbabwe relies on Kariba Dam for its electricity supply as over 75% of power produced in Zimbabwe is generated at the power plant. Currently, local production averages 1200MW versus peak demand of between 1400 and 1600MW. The balance is augmented through imports from the southern Africa region. These imports are not guaranteed as there is a power deficit in the region. In June 2021, the power utility started initiated 6-to-12-hour power cuts to balance demand and this has been negatively affecting business. Low rainfall in the 2021/22 season will further entrench the power cuts and lead to significant loss of production time and economic output.

Currency Depreciation, Inflation

The Zimbabwean Dollar has lost over 95% of its value since launch and continues to lose value on the formal market. Unhinged growth in money supply growth will continue to create artificial demand for foreign currency on the formal and parallel markets. Heading towards the 2023 harmonized elections, the risk for increase in money supply to fund infrastructure development projects and agriculture subsidies remains very high. This will keep annual inflation in double digit figures.

Consumer confidence in the local currency might decline as the election campaign season draws closer. This means that the local currency will continue to be relegated to an electronic currency (high velocity money) for transacting only and be disposed of for hard currency by all market players when there is need to restock, trade, save or buy assets. The parallel market will also be driven by market confidence (behavioural economics). Partial dollarization will be further entrenched with local currency depreciation, and this will lead to sustained pressure on government and employers to pay salaries in hard currency. Civil service industrial action will likely continue.

Global shocks

The ongoing conflict in Ukraine will put pressure on gas and petroleum prices as Ukraine and Russia are biggest suppliers of the two commodities. The knock-on effects will also be felt on fertilizer and chemicals where Zimbabwe imports a considerable amount of fertilizer from South Africa and eastern Europe.

12. Prospects for 2022

To sum up, the economic prospects for Zimbabwe will mainly be hinged on the ability of the policy makers to rein in inflation. The global factors are imposing inflationary pressures at a time when the domestic factors that are currently driving inflation have not been addressed. Thus, while the economy is expected to continue on the recovery path in 2022, there are binding constraints being brought about by the inflationary pressures that will reverse the growth potential below the 5.5% policy targets. It is important that RBZ prioritizes exchange rate management policies and ensures that there is stability of the exchange rate. Allowing for the exchange rate to be determined through a market determined process will be crucial in ensuring that both the official and parallel market exchange rates become stable. Exchange rate stability in turn would help contain inflation, which remains the single largest threat to economic stability.

Industry House
31 Josiah Chinamano Avenue, Harare

Tel: 0242 251490/6 Cell: 0789 092 977

Email: membership@czi.co.zw
Social Media Platforms: @czionline