STATE OF THE ECONOMY Report

SECOND QUARTER 2019

An economic dashboard for Zimbabwe

Produced by
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AFRICA ECONOMIC DEVELOPMENT STRATEGIES
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The darkest hour comes before dawn!

MORE than ever before, policy-makers and business leaders require credible sources of information to enable them to plan ahead and guide them as they swing their operations out of danger.

The State of the Economy Report, launched in May this year, is exactly what the doctor has ordered. In conjunction with Africa Economic Development Strategies (AEDS), the Daily News is making available useful information on the country's economy at the click of a button to assist decision makers and policy-makers in making informed decisions.

Researchers, analysts and authors from AEDS have done a credible and thorough job in producing a comprehensive, independent report that touches on everything that an individual may want to know about our economy.

The Daily News and AEDS fully appreciate the fact that information is a vital cog for economic development hence the 2nd Quarter State of the Economy Report has been put together with the objective of making it a point of reference.

In this edition, there is special focus on the agricultural sector that looks at its financing, trends in livestock and crop production, the role of markets in agriculture production, the state of infrastructure, opportunities and benchmarking the sector with regional peers.

There is also a section focusing on the mining sector, with emphasis on production, trends in exports, pricing trends of major minerals and commodities in international markets, competitiveness and taxation and their impact on business, the retention policy and its impact on business, the impact of exchange controls on the ease of doing business in the mining sector and progress made towards value addition and beneficiation.

In a nutshell, the country's economy is in a tailspin. At the time we unveiled our inaugural issue of the State of the Economy Report in May this year, inflation was edging close to 60 percent amid feverish calls for the powers-that-be to rein in the inflation monster.

Once again, the inflation monster is on rampage, rekindling sad memories of more than a decade ago when hyperinflation destroyed incomes and pensions, resulting in the Zimbabwe dollar fizzling out of circulation.

At the time of going to print, inflation was creeping towards 100 percent. It looks like inflation may scale past 300 percent by year-end unless the authorities wave their magic wand to keep it in check.

That prospect increasingly looks unlikely. The premature introduction of the Zimbabwe dollar, ending 10 years of its banishment, is stoking inflation fires through the exchange rate window where the local unit is losing ground against major currencies.

To add salt to injury, the mid-term fiscal policy review and supplementary budget presented by Finance and Economic Development minister Mthuli Ncube recently lifted the lid on the pressure cooker, resulting in massive increases in the prices of fuel and electricity.

Overall, the economy is now projected to shrink considerably on the back of the contraction in industry and commerce as companies battle escalating costs of production and subdued demand.

All hope is not lost though as we believe that the darkest hour comes before dawn.

Dakarai Mashava
Magazzine Editor

Exchange rate stabilisation crucial

The African Economic Development Strategies (AEDS) is a Zimbabwean grown management consulting firm committed to drive the economic growth agenda of African economies to catch up and lead economic growth in the 21st century.

In pursuit of providing practical economic advice and closing the information gap in the economy, AEDS in conjunction with the Daily News, jointly produced The State of the Economy in Zimbabwe.

The report is expected to provide new a economic reporting in Zimbabwe by putting emphasis on discussions based on hard facts, rigor, pragmatism and objectiveness – telling it as it is!

This report informed by data and critical literature which was sourced from reputable sources such as World Bank's World Development Indicators, World Bank's Ease of Doing Business reports, International Trade Centre, International Monetary Fund's World Economic Outlook reports, Africa Development Bank, World Economic Forum's Global competitiveness reports, United Nations Conference for Trade and Development investments report, etc.

Locally, researchers utilised data sourced from ministry of Finance and Economic Development, Reserve Bank of Zimbabwe, Zimbabwe National Statistics (ZIMSTAT), Consumer Council of Zimbabwe, etc. Further, primary data was gathered through key informant interviews with key stakeholders such key policy makers, Consumer Council of Zimbabwe, captains of industries and development partners, focus group discussions with top economists and experts.

This issue, contrary to our report published in May 2019, shows that the economic outlook is gloomy. This has been necessitated by excessive policy inconsistencies and various endogenous shocks emanating from untimely introduction of the new currency, adjustment in the rates and levies without corresponding adjustment on salaries and liberalisation of exchange rates as well as fuel pricing.

Whilst some of the measures were necessary, for example, liberalisation of exchange rates and fuel pricing, there is no clear policy mechanism aimed at increasing supply of foreign exchange which is key in stabilising the rates and eventually inflation.

Of concern, we noted that the introduction of the Zimbabwe dollar was hurried since the necessary conditions of six months import cover (foreign currency reserves), that is, a minimum of US$3 billion, single digit inflation, fiscal consolidation and stable exchange rates are lacking.

In as much as the minister of Finance and Economic Development Mthuli Ncube is emphatic that he has reined in budget surplus, available evidence shows that he hasn't achieved full fiscal consolidation since there is still debt over hang and he is still going to run a budget deficits come end of the year and it will be worse if all the 'purported' subsidies from the electricity supply authority, water and Zupco fares are fully absorbed.

Hence, in essence, we didn't meet any of the minimum requirements for the introduction of the Zimbabwe currency.

To make matters worse, from structural rigidities perspective, shortage of foreign exchange, negative effects of drought and low supply of electricity are expected to pose serious risks going forward.

On the basis of the foregoing, we anticipate the economic outlook to remain gloomy characterised by inflation spiral, continuous depreciation of exchange rate, company closures and shortages.

Dr. G. Mugano
Executive Director
Africa Economic Development Strategies

Global and Regional Developments

THE global economic growth has declined further to 2,6 percent as of May 2019 prediction.

The decline is attributed to sharp deterioration in market sentiment, portfolio reallocations away from risk assets, wider spreads over safe haven securities, tighter financial conditions, trade wars between world major producers and markets, global risk and policy challenges, monetary policy stance in the United States and climate change and political discord in the context of rising inequality.

Due to the drought and natural disaster experienced, the country has been estimated to have a negative growth of -3,1 percent in 2019.

Stabilisation of commodity prices is likely to stabilise global economic activity in 2019. However, tension between USA and China is likely to cause challenges in commodity driven export countries especially those, which heavily export to China.

Gold prices show a downward trend from December 2018 to May 2019 from US$1 320 in February 2019 to US$1 283 in May per ounce which is a negative development for Zimbabwe even though the price is above the minimum expected price of US$1200 per ounce.

> *"Stabilisation of commodity prices is likely to stabilise global economic activity in 2019. However, tension between USA and China is likely to cause challenges in commodity driven export countries especially those, which heavily export to China.*

In terms of Platinum which is the other major export for Zimbabwe, it showed a downward trend from April 2019 to May 2019, prices declining from US$887 to US$833 is a major drawback for Zimbabwe especially given foreign currency shortages in the country.

Oil prices are expected to average $66/bbl in 2019, lower than the October projections.

The downward revisions reflect a weaker outlook for global growth in 2019. However, month on month average prices increasing from US$56,50 in December 2018 to US$66,80 in May 2019 per barrel.

However, uncertainty remains high due to production cuts by OPEC and its partners even though this is expected to be sustained throughout 2019.

Agriculture commodities, maize, wheat, cotton and tobacco prices were swinging up and down from January to May 2019. World supplies continue to be influenced by natural disasters, climatic change and the after effects of trade wars between major trade partners.

Zimbabwe External Sector

The country faced incessant trade deficits, which have accumulated to $32,15 billion over the last 11 years since adoption of multi-currency in 2009. For the past 10 years (2008 to 2018), the country continues to be a heavy importer of commodities, which it used to produce locally, hence driving the economy into deficits year-in year-out.

To correct this imbalance, the country should consider substituting some of these imports with locally-produced commodities, thereby internalising imports and boosting domestic production.

This would free scarce foreign currency supplies to major and those really demand foreign currency. Foreign currency receipts continue to be dominated by mineral exports (gold, PGMS, nickel, chrome and diamonds) and agricultural exports (mainly dominated by tobacco). Gold alone contributes above 30 percent of total receipts.

Zimbabwe received above US$6 billion in 2018, which is above some of the comparator countries in the region, but the expenditure of the receipts is what needs strong policy intervention and improved efficient use of available foreign currency by allocating the foreign currency towards critical areas as opposed to product lines which can be substituted locally.

The country continues to lag behind other countries (Mozambique, South Africa, Zambia and Namibia) in attracting foreign direct investment (FDI) shown by declining inflows trend from 2014 to 2017 (US$545 million in 2014 to US$289 in 2017).

This calls for drastic measures for the country to improve the operating environment in order to make Zimbabwe an attractive destination for foreign direct investment, which includes improving ease of Doing Business, improve international Competitiveness and safety of the destination.

Fiscal & Monetary Policy Measures

Zimbabwe overturned the fiscal imbalances which were experienced since 2015 to 2018 as the government was spending beyond what can be generated that is government expenditure consistently exceeding revenue. The introduction of two percent IMT tax has seen the government declaring budget surpluses.

The RTGS$ is now the Zimbabwean currency and the interbank market is the dominant market for foreign currency trading. The gap between the parallel and interbank markets has been closed since the banning of use of foreign currency, which an opposite of what the country used to experience as the interbank rate above the parallel market rate.

Global and Regional Developments

Inflation Developments

The country low inflation figures became a dream of the past in October 2018. In this regard, year-on-year inflation continued on an upward path to 66.8percent, 75.86 percent and 97.85percent in March 2019, April 2019 and May 2019, respectively.

On a month–on–month basis, the country witnessed resurgence of inflationary pressures from March 2019 after month–on–month inflation rate rose at a sustained rate. The month-on-month inflation rate for the month of February 2019 fell from 10.8percent in January 2019 to 1,67 percent in February 2019 but picked to 4,4 percent, 5,5 percent and 12.5percent for the month of March 2019, April 2019 and May 2019, respectively.

The major drivers of year -on-year inflation in May 2019 were food and non -alcoholic beverages (126,43 percent), alcoholic beverages and tobacco (134,80 percent), clothing and footwear (140,46 percent), maintenance and repair of the dwelling (159.02 percent), postal services (477,78 percent) and transport services (323,27 percent).

Agriculture Sector

Over the years crop production in Zimbabwe is highly variable due to the heavy reliance on rain-fed agriculture. With the exception of tobacco and macadamia, production of maize, sorghum, millet and other cash crops has continued to trend downwards compared to 1998 production. At the centre of this reduced production is very low productivity.

Average productivity of both food and cash crops across all farm types has been declining between 1998 and 2016. One of the striking observations is that, the national average yield of 0.749 metric tonnes per hectare was significantly weighed down by small scale farmers, which represent 78 percent of land under maize production, whose output per hectare is around 0.68 metric tonnes per hectare while the yields by commercial farmers are modest at an average of 3.5 tonnes per hectare.

Therefore, a robust production and productivity enhancement programme driven by the government targeting low yielding small holder farmers will go a long way in securing the nation’s food security while at the same time increasing small holder farmer earnings since they will be able to produce a surplus.

Strong value chains as witnessed in the tobacco sector, contributed to massive production regardless of the fact that the same communal farmers who are growing tobacco do not have security of tenure. In the tobacco sector, the contracting companies are playing the role of an aggregator which uses its strong balance sheet and borrow money from the banks on behalf of the poor farmers thereby acting as farmers ‘collateral’. Financing of agriculture is still a major problem, with financial institutions not willing to fund farmers.

The land redistribution exercise has increased the participation of more than 300 000 newly resettled farmers with varied skills and resources in livestock farming. This transformation of the livestock sector has led to substantial shifts in ownership, use, and livestock management; and associated effects on animal disease management, production and marketing.

Livestock herd sizes nationally declined by about 20 percent for beef, over 83 percent for dairy, and 26 and 25 percent for pigs and small ruminants. The productivity of smallholder cattle herds remains very low, with average calving rates of about 45 percent against a potential of 60 percent, and off-take rates of about six percent against a recommended 20 percent.

In order to address these drawbacks, there is need to train farmers with a view of building their capacity to run cattle and animal rearing as a serious business. In addition, there is need to create strong value chains linkages between farmers, the Cold Storage Company, meat processors and abattoirs.

Mining Sector

Mining sector in Zimbabwe has the potential of promoting the reindustrialisation of Zimbabwe, industrial growth, maintenance and development, therefore the mining sector is critical in re-establishing the economy of Zimbabwe. Zimbabwe’s mineral production reached US$970,5 million in the four months to April 2019 with gold accounting for 38percent of that amount at US$383,8 million. Major minerals reflected an increase in volume production in 2018 from 2017 with decline realised in high carbon ferrochrome. Gold was exceptional with production for 2018 hit a record 35.054 tonnes up from 26.494 tonnes in 2017.

Major mineral exports in Zimbabwe are gold, PGMS, nickel, chrome iron and steel. Precious stones and metals which include gold, diamonds and PGMS raked in more than a billion dollars in 2018. Foreign exchange controls affect the mining sector through retention ratios by the mining industry and exchange rate disparities resulting in mismatch between revenue and the costs.

Gold mining sector retains 55 percent of export receipts and the rest of minerals retain 50 percent. Mines import 90 percent of their inputs, meaning that most production cost are denominated in hard currency whilst 65-75percent of revenue is received as local RTGS$ causing threat of closure for mines.

The major cost drivers are procurement (49 percent), labour and or wages (23 percent), statutory payments (14 percent) and energy (10 percent). The average cost per unit of mineral is at an upward trend for many minerals from 2016 up to 2018 also signalling a threat in the sector.

In order to stabilise the mining sector, government should consider prioritising what exactly is being imported and how the imports can be met from the exports without negatively affecting the mining sector and jeopardising foreign receipts.

Government should consider reviewing retention levels for the mining industry in line with the actual US$ costs that are obtaining on the market for inputs. Government should also consult players in the sector such that the exchange controls will not cause black market trading or smuggling of minerals to neighbouring countries

1.1 World economic outlook update

GLOBAL economic activities have softened amid an increase in trade tensions and tariff hikes between the United States and China, a decline in business confidence, a tightening of financial conditions, and higher policy uncertainty across many economies.

Global growth in 2019 has been downgraded to 2,6 percent, 0,3 percentage point below previous forecasts of 2,9 percent from January 2019 predictions, reflecting weaker-than-expected international trade and investment at the start of the year.

Emerging Market and Developing Economies (EMDEs) growth remains constrained by subdued investment, which is dampening prospects and impeding progress toward achieving development goals.

Risks are also firmly on the downside, in part reflecting the possibility of destabilising policy developments, including a further escalation of trade tensions between major economies; renewed financial turmoil in EMDEs; and sharper-than-expected slowdowns in major economies.

The tense international environment, which inter alia, is characterised by trade disagreements between or among leading global economies still remain unresolved. The latest China-USA in February 2019 ended with USA President extending tariff deadline and has threatened an additional tariff on US$267 billion.

In retaliation, China proposed to introduce qualitative measures that would affect US businesses operating in the country, hence the ongoing trade differences are affecting the prospects of world economic outlook as these cascades done to producers of commodities world over.

The Euro block lost more momentum than expected as consumer and business confidence weakened and car production in Germany was disrupted by the introduction of new emission standards; investment dropped in Italy as sovereign spreads widened; street protests that disrupted retail sales and weighed on consumption spending in France and external demand, especially from emerging Asia, have softened.

Growing concerns about a no-deal Brexit also likely weighed on investment spending within the euro area. In addition, the US Federal Reserve signalled a more accommodative monetary policy stance and markets became more optimistic about a US–China trade deal, but they remain slightly more restrictive.

Global growth in 2019 is also weighed down by the emerging market and developing economy group, where growth is expected to tick down to four percent. Growth in emerging and developing Asia is expected to dip to 6,3 percent.

The decline in growth relative to 2018 reflects lower growth in China and the recession in Turkey, with an important carryover from weaker activity in late 2018, as well as a deepening contraction in Iran.

In India, growth is projected to pick up to 7.3 percent in 2019 supported by the continued recovery of investment and robust consumption amid a more expansionary stance of monetary policy and some expected impetus from fiscal policy.

In Latin America and the Caribbean, growth is projected to recover over the next two years, to 1,7 percent in 2019. In sub-Saharan Africa, growth is expected to pick up to 2,9 percent in 2019, reflecting upward revisions for Angola, South Africa and Nigeria.

The slow growth in 2019 is mainly caused by:

- Sharp deterioration in market sentiment - implying portfolio reallocations away from risk assets, wider spreads over safe haven securities, and generally tighter financial conditions, especially for vulnerable economies;
- Trade wars between world major producers and markets;
- Global risk and policy challenges;
- Monetary policy stance in the United States;
- Climate change and political discord in the context of rising inequality – these are key risks that could lower global potential output;
- Softening international trade and investment

There are prospects of positive growth as financial conditions in advanced economies have eased since the start of the year, after tightening sharply in the final months of 2018 on equity price declines and higher risk spreads. As of early March 2019, conditions were slightly tighter than in October 2018.

Conditions are projected to improve during 2019 as stimulus measures sustain activity in China and recession strains gradually ease in economies such as Argentina and Turkey.

Despite fiscal stimulus that offsets some of the impact of higher US tariffs, China's economy will slow due to the combined influence of needed financial regulatory tightening and trade tensions with the United States.

India's economy is poised to pick up in 2019, benefiting from lower oil prices and a slower pace of monetary tightening than previously expected, as inflation pressures ease.

Summarised global economic growth developments and prospects for selected regions and countries are provided in Table 1.1 below.

Table 1.1: Global and Regional Growth and Outlook (%)

	2016	2017	2018 Estimate	2019 Projection World Bank	2019 Projection IMF
World Output	2.4%	3.1%	3.0%	2.6%	3.3%
Advanced Economies	1.7%	2.3%	2.1%	1.7%	1.8%
US	1.6%	2.2%	2.9%	2.5%	2.3%
Euro Area	1.9%	2.4%	1.9%	1.2%	1.3%
Japan	0.6%	1.9%	0.8%	0.8%	1.0%
Emerging Markets and Developing	3.7%	4.3%	4.2%	4.0%	4.4%
China	6.7%	6.9%	6.5%	6.2%	6.3%
India	7.1%	6.7%	7.3%	7.5%	7.3%
Sub-Saharan Africa	1.3%	2.6%	2.7%	2.9%	3.5%
South Africa	0.6%	1.3%	0.9%	1.1%	1.2%
Zimbabwe*	0.6%	4.7%	3.5%	-3.1%	-
Latin America and the Caribbean	-1.5%	0.8%	1.6%	1.7%	1.4%
Brazil	-3.3%	1.1%	1.2%	1.5%	2.1%
Mexico	2.9%	2.1%	2.0%	1.7%	1.6%
Argentina	-1.8%	2.9%	-2.5%	-1.2%	-

Source: World Bank: Global Economic Prospects (June 2019 Update) IMF statistics (April 2019)

1.1 World economic outlook update

Advanced Economies

Growth among advanced economies is forecast to drop to 1.7 percent in 2019 based on June 2019 forecasting. Recent predictions for advanced economies point to decelerating activity, especially in the Euro Area.

Investment has lost momentum and trade growth has declined markedly. Rising real wages are supporting consumption in most countries.

US growth is expected to decline to 2,5 percent in 2019. US activity is still being bolstered by government spending and corporate tax cuts, but the boost is fading. Unemployment recently reached its lowest level in nearly five decades. Amid heightened trade tensions, exports have slowed, especially those to Europe and Asia.

Euro Area's growth is expected to fall to 1.2 percent from an estimated 1.9 percent in 2018 mainly from economic conditions in the Euro Area which have deteriorated rapidly since mid-2018, particularly in the manufacturing sector. The slowdown mainly caused by a decline in exports, especially to China and the Europe and Central Asia region.

Domestic demand has also softened, albeit to a lesser degree, as it remains buoyed by declining unemployment and solid real wage growth. Growth in 2019 for Japan is expected to be 0.8 percent, down from previous projections due to weaker than expected external demand.

Emerging Markets and Developing Economies (EMDEs)

EMDE growth momentum continues to be generally subdued at 4.0 percent in 2019, as slowing global trade and persistent policy uncertainty in key economies are only partially offset by recent improvements in external financing conditions. The risk of financial stress in EMDEs could be exacerbated by increasing debt-refinancing needs.

A sharp deceleration in major economies would have large spillover effects for EMDEs and increase the probability of a marked global downturn. Rising public debt levels are reducing the effectiveness of fiscal policy in EMDEs.

In China, trade flows have been weak, however, weighed down by softness in manufacturing output, trade tensions with the United States, and lacklustre global growth. China's growth is projected to decline to 6,2 percent in 2019.

India is expected to have a positive growth from estimated 7,3 percent to a projected 7,5 percent.

Latin America and the Caribbean

Economic growth in the region is projected to advance to a 1,7 percent in 2019 supported mainly by a pickup in private consumption. Brazil is forecast to expand 2,2 percent, assuming fiscal reforms are quickly put in place and that a recovery of consumption and investment will outweigh cutbacks to government spending.

Mexico is expected to keep growth at two percent due to policy uncertainty and prospects of subdued investments. Argentina is forecast for decline in growth prospects to fall to 1,7 percent due to deep fiscal consolidation which will result in loss of employment and reduced consumption and investment.

Sub-Saharan Africa

Regional growth is expected to increase to 2.9 percent in 2019 as per June forecast due to weakening external demand, supply disruptions, and elevated policy uncertainty weighing on activity in major economies.

The expected growth is now lower than previously projected, reflecting persistent headwinds in major economies, and it is largely insufficient to make progress in poverty reduction.

Downside risks to the outlook include weaker-than-expected external demand, lower commodity prices, renewed stress in global financial markets, fiscal slippages, political uncertainty, armed conflicts, and adverse weather conditions.

Slower-than-expected mining and oil production, combined with domestic policy uncertainties, has delayed the recovery in activity in some of the largest commodity exporters in Sub-Saharan Africa (Angola, Nigeria, and South Africa). The newly projected Zimbabwe's growth rate by the World Bank is now -3,1 percent from a projected positive 3,1 percent. The negative growth prospects are owing to contractionary impact of austerity measures (reduction in government expenditure), uncertainty in policy (monetary policy and fiscal policy reversals), economic reforms, drought and the effects of Cyclone Idai.

"In China, trade flows have been weak, however, weighed down by softness in manufacturing output, trade tensions with the United States, and lacklustre global growth. China's growth is projected to decline to 6,2 percent in 2019.

1.1 International Commodity Prices

COMMODITIES markets and prices continue to influence global economic activities. Most commodity prices gained momentum in the first quarter of 2019 following recovery from 2018 last quarter.

Energy prices have diverged as OPEC production cuts have lifted oil prices while record-high US shale gas exports have depressed natural gas and, indirectly, coal prices. Most metal and mineral prices have recovered from losses in the last quarter of 2018, amid strengthening growth prospects for China and supply bottlenecks. Agricultural prices are expected to fall 2.6 percent in 2019, on average, amid ample stocks.

Commodity prices might have a bearing on Zimbabwe, for example if OPEC cuts production, this will lift the prices up thereby increasing the import bill on fuel and increase the cost of doing business through increased price of fuel.

Positively, Zimbabwe as a country which mainly relies on primary exports of metals (gold, platinum, chrome) is going to benefit from rise in metal commodity prices but negatively affected by fall in agriculture commodities mainly tobacco (major agriculture export).

The country will benefit from average fall in price of cereals (maize, wheat) as the country have experienced drought together with Cyclone Idai which reduced output. Recovery of metal and mineral prices is a welcome development for Zimbabwe as this will positively affect Zimbabwe's mining operations, mineral exports, export receipts, mineral tax revenues and employment.

1.1.1 Gold and Platinum

Metal prices are expected to continue their recovery in 2019. China's fiscal stimulus are expected to provide support. Risks are broadly balanced. Downside risks include a weaker than expected, demand boost from China's fiscal stimulus and a prolonged stall in US-China trade negotiations; upside risks include tighter than expected environmental policies and slower than expected easing of supply bottlenecks. This development has clouded the outlook for demand for commodities.

Gold prices show an upward trend from 2016 to 2018 from US$1249 to US$1269 per ounce respectively. Platinum slowed down from 2016 to 2018 showing a fall in price from US$987 to US$880 per ounce respectively.

Month-on-month prices for gold accelerated upwards from US$1250per ounce in December 2018 to US$1292 per ounce in January 2019 to a further increase to US$1320 per ounce in February 2019.

Implications for Zimbabwe

Gold and platinum are the major exports of minerals for Zimbabwe and accounts for the greater proportion of mineral tax revenue. Firming in world price of gold is a favourable development to both small scale (makorokoza) and large scale producers.

This has a positive effect on the exports, employment, and mineral tax revenue. However, the retention policy from the Monetary Policy is likely to impact negatively on the production and supply to Fidelity Printers (national buyer of gold) and accelerates smuggling to neighbouring countries. Falling prices of platinum will therefore have serious impacts on Zimbabwe's exports receipts.

Figure 1.1: Gold and Platinum Prices

Figure 1.1(a): Annual average prices

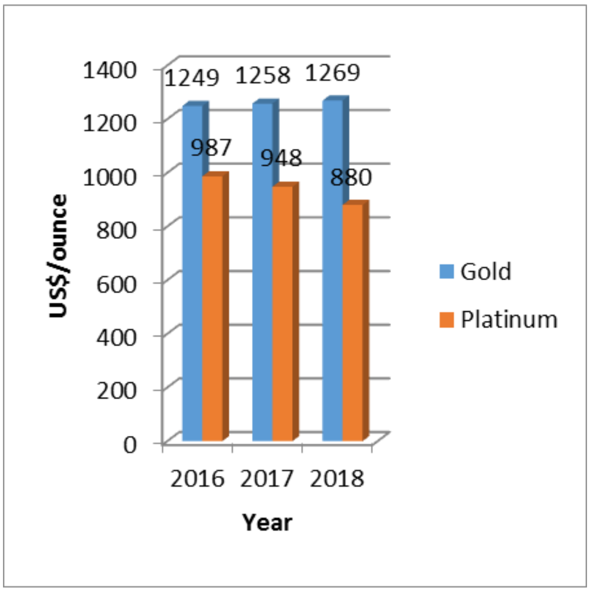
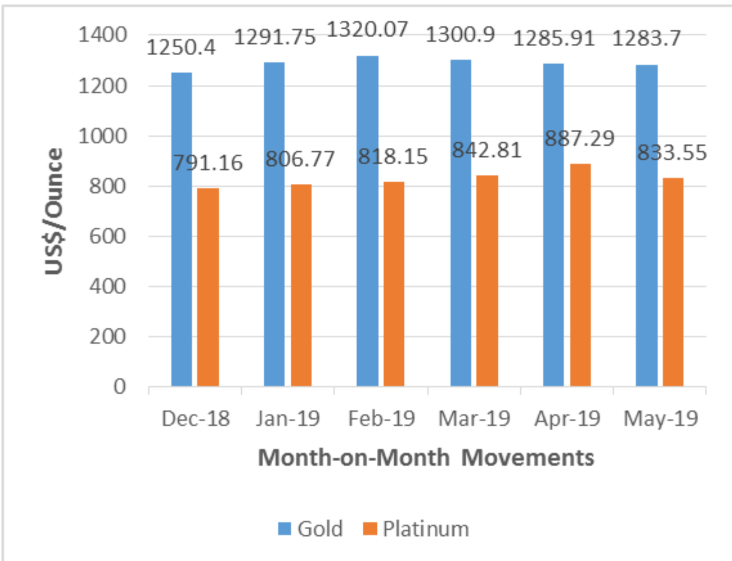


Figure 1.1(b): Month on month price movement



Source: World Bank Commodities Price Data (June 2019)

Oil prices are expected to average $66/bbl in 2019, lower than the October projections. The downward revisions reflect a weaker outlook for global growth in 2019.

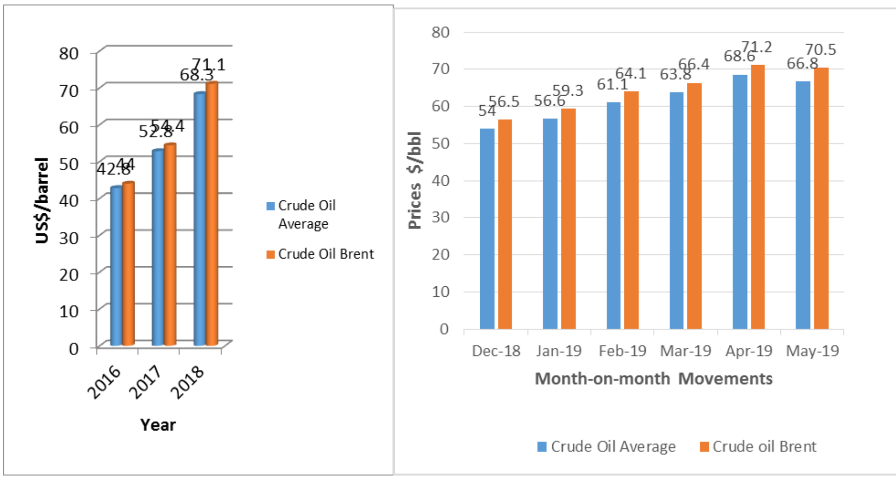
The Commodity Markets Outlook (2019) forecast assumes that production cuts by OPEC and its partners will be sustained throughout 2019. Risks to the oil price outlook which are broadly balanced relate primarily to policy outcomes.

These include OPEC's June meeting regarding production cuts, the impact of the removal of waivers to the US sanctions on Iran, and the effect of the International Maritime Organisation's sulfur emissions regulation.

Oil prices are expected to average US$66/ barrel 2019 as of April 2019 projections, however, uncertainty to supply due to OPEC production cuts are expected to be managed throughout 2019.

This is a positive development to country such as Zimbabwe which are influenced by supply shocks in oil.

Figure 2.2: World Average Prices of Crude Oil



Source: World Bank Commodities Price Data (June 2019)

Implications for Zimbabwe

Oil price stability in international markets and supply stability are positive developments to Zimbabwe on both price stability and importation bill. However, Zimbabwe has its own challenges soon after introduction of the RTGS$ as own currency and floating exchange rate at the same time importers of fuel now using the inter-market exchange rate which has caused persistent increase in the local prices of fuel. The situation would have been worse than this if there was no stability in world prices.

1.2.3 Agriculture Commodities

FROM the Global Commodity Markets Outlook (2019) agricultural prices are expected to fall 2.6 percent in 2019, on average, amid ample stocks.

Table 2: World Average Commodity Prices of Selected Agriculture Commodities

	Unit	Annual Price Averages			Monthly Price Averages					
		2016	**2017**	**2018**	**Dec 2018**	**Jan 2019**	**Feb 2019**	**Mar 2018**	**Apr 2019**	**May 2019**
Maize	**$/mt**	159.2	154.5	164.4	167.4	166.7	169.5	166.2	161.5	171.1
Wheat HRW	**$/mt**	166.6	174.2	209.9	211.3	209.8	219.0	205.8	199.5	199.5
Wheat SRW	**$/mt**	176.3	178.2	203.9	217.8	220.2	217.2	200.1	197.3	200.3
Soya beans	**$/mt**	405	393	394	381	382	381	370	360	337
Cotton	**$/kg**	1.64	1.84	2.01	1.90	1.82	1.79	1.85	1.92	1.77
Tobacco*	**$/kg**	4.96	4.65	4.95	4.95	4.95	4.95	4.78	4.93	4.93

(* US import prices converted from metric tonne of imports to price per kg for tobacco)

Source: World Bank Commodities Price Data (June 2019)

1.2.3.1 Maize and Wheat

Maize prices were swinging up and down from January to May 2019 increasing in February to US$169.50 per tonne, declining to US$161.5 in April and rising to US$171.10 in May. The soft red winter (SRW) wheat price decreased from US$217.2 per metric tonne in February to US$197.3 per metric tonne in April and increased to US$200.3 in May. Hard red winter (HRW) decreased from US$219.0 per metric tonne in February to US$199.5 per metric tonne in May.

However, the upward trend that is being signaled in the table are a warning sign to Zimbabwe as the country is going to import wheat. Wheat prices were slightly higher in 2018 as bad weather in Europe led to smaller harvests.

1.2.3.2 Soyabean

Soya bean price fell from US$382 per metric tonne in January 2019 to US337 per metric tonne in May. The decline in Soya bean prices in the US is due to the announcement of tariffs by China on imports of US soya beans, even though prices remain firm in other countries such as Brazil.

1.2.3.3 Cotton

Cotton prices increased from US$1.79 per kilogramme in February 2019 to US$1.92 per kilogramme in April and then declined in May 2019 to US$1,77 per kilogramme. This is an unfavourable trend for Zimbabwe given that the country has completed the harvesting of the crop now.

1.2.3.4 Tobacco

Tobacco average prices were fluctuating above US$4/kg on a monthly basis. The prices fell to US$4.78 in March 2019 and picked up in May and April 2019 averaging US$4.93 for April and May 2019.

Implications for Zimbabwe

Increase in price of Maize is likely to affect Zimbabwe negatively given that the country has to import maize to sustain for supply given that the country was hit by drought. Rising average price trends for wheat are an unfavourable developments as the country is a net importer of wheat. The continuous decline in Soya bean prices is a positive move for Zimbabwe, given that the country fell short of the annual production and relies heavily on imports. However, the direction in which the prices have started taking are worrisome as we are a net importer of soya beans. However, decline in price of cotton is unfavourable as it is going to impact negatively on the export receipts on the crop. Positive price movements on tobacco are encouraging for Zimbabwe as this will result in more revenue flows from tobacco which is the major agriculture export.

2.1 Current Account Performance

Table 2.1: Zimbabwe Trade Performance (2008 – 2018) (US $Billion)

Total Annual Imports from WTO Member States										
2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
2.832	3.527	5.852	8.599	7.363	7.704	6.380	6.002	5.212	5.437	5.189
Total Annual Exports with WTO Member States										
2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
1.694	2.269	3.199	3.512	3.882	3.507	3.064	2.704	2.832	2.072	3.211
***Total Annual Trade Balance with* WTO Member States**										
2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*	*2016*	*2017*	*2018*
(1.138)	(1.258)	(2.653)	(5.087)	(3.480)	(4.197)	(3.316)	(3.298)	(2.379)	(3.365)	(1.978)
										32.15

Source: UN COMTRADE (2019)

THE country's external sector position has largely remained under considerable pressure, due to excessive foreign currency demand against the foreign currency inflows.

This pressure is manifested through persistent and large trade and current account deficits that the economy has been recording since 2009.

While exports of goods and services have been on an upward trend, this has been offset by the increase in imports of goods and services on the back of domestic supply gaps and rising international oil prices.

Zimbabwe, for the last 11 years, that is since 2008, has faced incessant trade deficits which have accumulated to $32.15 billion (see Table 2.1). In each and every year, Zimbabwe exports have roughly been about 50 percent of imports.

This is not an ideal situation considering the fact that the country must realise trade surplus which is a necessary and sufficient requirement for the stabilisation of currency under a dollarised environment.

Statistics from the International Trade Centre (ITC) show that the Southern African Development Community (Sadc) is the major source of Zimbabwe imports with an import share of 79 percent of total imports.

In 2018, Zimbabwe's major imports include mineral fuels ($1.5 billion), machinery ($467.8 million), cereals ($519 million), motor vehicles ($340 million), electricals ($263 million), iron and steel ($213 million), pharmaceuticals ($201.6 million), plastics ($181 million), animal and vegetable fats ($154 million), soya bean crude oil ($103 million) and fertiliser ($104 million) (UN COMTRADE, 2018).

It is refreshing to note that exports surged in 2018 by 55 percent. This is a clear testimony that Zimbabwe can increase its export capacity ceteris paribus. Of concern though is the fact that the bulk of the country's exports, that is, 87 percent, comprise among others gold, flue-cured tobacco, ferrochrome, nickel, chrome, and diamonds, which are primary exports.

The largest foreign currency earners were gold ($1,030 billion), followed by tobacco ($892 million), nickel mattes ($432 million), nickel ores and concentrates ($322 million), ferro-chromium ($207 million), chromium ores and concentrates ($81 million) for 2018 (UN COMTRADE, 2018).

Consistently, our trading statistics shows that there are a number of lines which the country has been importing whose import values seem insignificant as single products but become very significant when combined. As shown in table 2.2 (Page 12), these products make up $2.152 billion, that is, 41.7 percent of total imports which can be substituted.

What is apparent is that Zimbabwe, for a number of decades, has been importing these products consistently. Against this background, from a policy perspective, the country should consider the following policy measures:

(a) Implement an import substitution policy aimed at imports which can be locally produced, that is, agricultural produce (cereals, vegetables, mushroom, etc) and manufactured produce (such as pharmaceuticals, fertilisers, paper, tooth picks, pampers, chewing gums, etc) (see table 2.2);

(b) Related to import substitution strategy, there is need for a funded industrialisation strategy which targets the same specific imports identified in (a);

(c) Deliberate local content policy aimed at strengthening local value chains and operationalisation of value chain finance models through creation of an enabling environment for business to support backward and forward linkages;

"In 2018, Zimbabwe's major imports include mineral fuels ($1.5 billion), machinery ($467.8 million), cereals ($519 million), motor vehicles ($340 million), electricals ($263 million), iron and steel ($213 million), pharmaceuticals ($201.6 million), plastics ($181 million), animal and vegetable fats ($154 million), soya bean crude oil ($103 million) and fertiliser ($104 million)

Table 2.2: Zimbabwe major imports which can be substituted

HS Code	Product Description	$ Million
'10	Cereals	519
'30	Pharmaceutical products	202
'15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	155
'72	Iron and steel	213
'31	Fertilisers	95
'48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	81
'23	Residues and waste from the food industries; prepared animal fodder	76
'40	Rubber and articles thereof	67
'33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	60
'28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	47
'34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	45
'11	Products of the milling industry; malt; starches; inulin; wheat gluten	41
'21	Miscellaneous edible preparations	38
'99	Commodities not elsewhere specified	35
'19	Preparations of cereals, flour, starch or milk; pastrycooks' products	30
'22	Beverages, spirits and vinegar	30
'29	Organic chemicals	30
'12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruit; industrial or medicinal ...	25
'17	Sugars and sugar confectionery	22
'03	Fish and crustaceans, molluscs and other aquatic invertebrates	21
'36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	20
'63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	20
'96	Miscellaneous manufactured articles	20
'20	Preparations of vegetables, fruit, nuts or other parts of plants	20
'82	Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	18
'76	Aluminium and articles thereof	18
'70	Glass and glassware	17
'44	Wood and articles of wood; wood charcoal	17
'94	Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	17
'55	Man-made staple fibres	16
'24	Tobacco and manufactured tobacco substitutes	15
'07	Edible vegetables and certain roots and tubers	14
'04	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	14
'64	Footwear, gaiters and the like; parts of such articles	13
'08	Edible fruit and nuts; peel of citrus fruit or melons	10
'83	Miscellaneous articles of base metal	10
'49	Printed books, newspapers, pictures and other products of the printing industry; manuscripts, ...	10
'68	Articles of stone, plaster, cement, asbestos, mica or similar materials	10
'35	Albuminoidal substances; modified starches; glues; enzymes	9
'61	Articles of apparel and clothing accessories, knitted or crocheted	8
'02	Meat and edible meat offal	7
'62	Articles of apparel and clothing accessories, not knitted or crocheted	6
'01	Live animals	5
'09	Coffee, tea, maté and spices	5
'52	Cotton	2
	Total	**2,152**
		41.47 %

IN addressing challenges linked to low and narrow export base, the following measures are recommended:

(a) There is need for the country to build export capacity by investing into the traditional export lines which are largely concentrated in the agro-processing industries, horticulture and minerals. This requires investment into retooling and full utilisation of resources like land.

Specifically in agriculture, Government should promote joint ventures with white commercial farmers and resettled farmers. In this regard, lessons can be drawn from the Agricultural and Rural Development Authority (ARDA);

(b) There is need for investment into factories with a view of promoting value addition and beneficiation with a view to changing the trajectory from exporting primary goods to processed and finished goods.

This requires targeted investment campaigns for such specific projects which are aimed at our current export lines which are going out as raw. The current work on special economic zones should consider designation of specific zones which are aimed at value addition and beneficiation;

(c) There is need for the implementation of the National Export Strategy which was developed by the ministry of Industry and Commerce with a view of ramping up exports to traditional and non -traditional markets.

2.2 Foreign Currency Receipts

Table 2.3: Global Foreign Currency Receipts (USD million)

Type of Receipt		Week 52 2018	% Contribution	Week 52 2017	% Contribution	% Change
Export proceeds		4,264.7	68%	3,556.2	64%	19.9%
International Remittances	Diaspora	597.4	9%	695.3	13%	-14%
	NGOs	530.4	8%	682.5	12%	-22%
Loan Proceeds		826.1	13%	533.5	10%	55%
Income Receipts		59.3	1%	57.0	1%	4%
Foreign Investments		22.8	0%	25.4	0%	-10%
Total		**6,300.7**	**100%**	**5,549.9**	**100%**	**13.5%**

Source: Exchange Control Records and Bank Supervision Application System (BSA)

"Zimbabwe should work towards improving efficient use of foreign currency. The country should endeavour allocate foreign currency towards critical areas as opposed to product lines which can be produced locally such as agriculture and manufacturing produce.

AS NOTED by the Reserve Bank of Zimbabwe (2019), the Global Foreign Currency receipts for the period January to December 2018 amounted to US$6.3 billion compared to US$5.5 billion received during the same period in 2017, representing a 13.9 percent increase in foreign currency supply. The table 2.3 shows Global foreign currency receipts by source.

Export proceeds contributed 68 percent of the total global receipts for the 52 weeks of 2018, while international money transfers accounted for about 17 percent. Export proceeds have continued to be the major source of liquidity for the country.

International Remittances declined by 19 percent from US$1.4 billion received in 2017 to US$1.1 billion received in 2018.

Of the US$1.4 billion, Diaspora remittances contributed US$619, 2 million, a decline of 11.4 percent as compared to US$699 million received in 2017 (Reserve Bank of Zimbabwe, 2019).

The Reserve Bank of Zimbabwe noted that the decline of Diaspora remittances is mainly attributed to the preference to send in-kind, remittances by the Diaspora, and the interception of remittances in South Africa by cross border traders.

This has been a major contributor considering that South Africa contributes about 34 percent of the total Diaspora remittances.

Zimbabwe should work towards improving efficient use of foreign currency. The country should endeavour to allocate foreign currency towards critical areas as opposed to product lines which can be produced locally such as agriculture and manufacturing produce (see table 2.2).

2.5 Foreign Direct Investments

Over the years, Zimbabwe lagged behind with respect to attracting foreign direct investments as compared to its regional peers. Figure 2.1 shows that Zimbabwe for the last ten years the country failed to exceed US$500 million mark in terms of FDIs while countries like South Africa, Mozambique and Zambia exceeded US$9 billion, US$6 billion and US$2 billion, respectively (see table 2.1).

However, it is worthy to note that the country has seen its foreign direct investments inflows doubling to US$745 million in 2018 from US$345 million in 2017.

This significant improvement is testimony of investors response to Government efforts to reform the business environment under the Zimbabwe is open for business mantra.

World Bank (2018) has identified the following as key constraints impeding investments in Zimbabwe:

(a) Red tape and corruption;

(b) Excessive administrative and registration requirement;

(c) Tax burden;

(d) Weak institution;

(e) Political instability.

(f) Economic instability

(g) Lack of policy clarity, policy reversals and policy inconsistency

Going forward, within the context of Transitional Stabilisation Programme, fiscal and monetary policy measures must expedite full implementation of policy measures spelt out in these policy frameworks. Moreso, the mantra that Zimbabwe is open for business must be judiciously applied in our approaches whether in economics or politics.

Table 2.1: Foreign Direct Investment Inflows in Selected African Countries

Country/Year	2013	2014	2015	2016	2017	2018
Botswana	67	515	379	122	177	229
Malawi	89	387	510	116	90	102
Mozambique	6,175	4,902	3,867	3,093	2,293	2,711
South Africa	8,300	5,771	1,729	2,235	2,007	5,334
Zambia	2,100	1,489	1,305	663	1,108	569
Zimbabwe	400	545	421	372	349	745
Rwanda	258	459	380	342	356	398

Source: UNCTAD (2019)

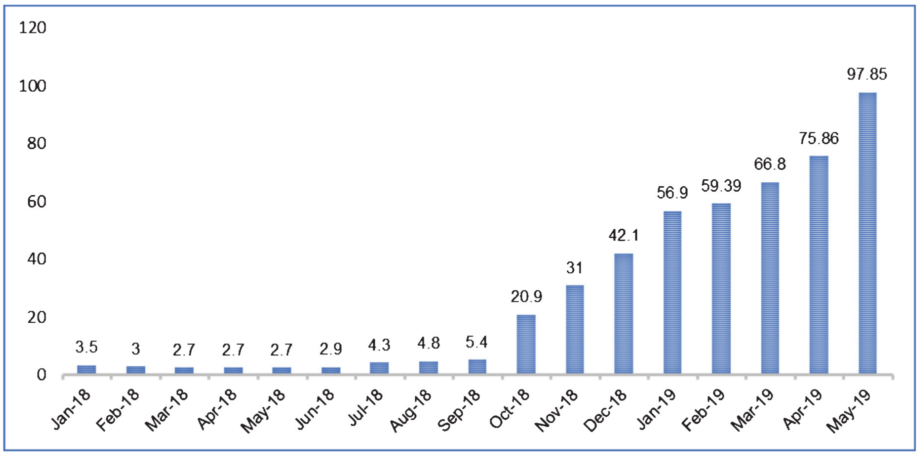
1. Inflation developments

THE annual headline inflation, which had been largely trending below 5 percent for the greater part of 2018, spiked to 21 percent in October 2018 and further to 42.1 percent, 56.9 percent and 59.39 percent in December 2018, January 2019 and February 2019, respectively as inflation pressures builds in the economy.

Inflation build up between October 2018 and February 2019, the price hikes which were largely defined due to excessive speculative behaviour, unrelated to economic fundamentals, which also saw increases in parallel market rates for foreign exchange as noted by the Reserve Bank of Zimbabwe.

However, from February 2019, our observations are that inflation pressures which ensued were largely driven by exchange rate depreciation after liberalising the foreign exchange market. In this regard, year-on-year inflation continued on an upward path to 66,8 percent, 75,86 percent and 97,85 percent in March 2019, April 2019 and May 2019, respectively (see figure 3.1)

Figure 3.1: Annual Inflation Profile (%)



Source: ZIMSTAT (2019)

On an annual basis, the major drivers of year-on-year inflation in May 2019 were food and non -alcoholic beverages (126.43 percent), alcoholic beverages and tobacco (134.80 percent), clothing and footwear (140.46 percent), maintenance and repair of the dwelling (159.02 percent), postal services (477.78 percent) and transport services (323.27 percent) (ZIMSTAT, 2019).

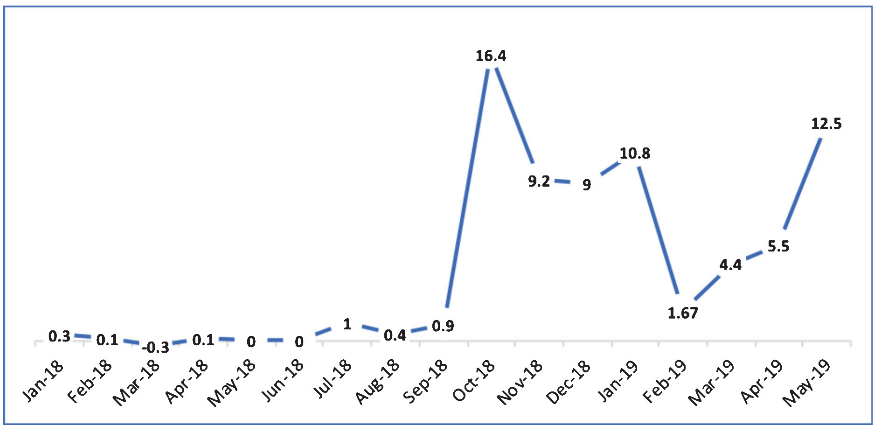
3.1 Month-on-Month Inflation

On a month–on–month basis, the country witnessed resurgence of inflationary pressures from March 2019 after month–on–month inflation rate rose at a sustained rate. For example, the month -on-month inflation rate for the month of February 2019 fell from 10.8 percent in January 2019 to 1.67 percent in February 2019 but picked to 4.4 percent, 5.5 percent and 12.5 percent for the month of March 2019, April 2019 and May 2019, respectively (see figure 3.2).

Based on the foregoing and recent policy announcements such as the liberalisation of the fuel sector (in May 2019) and introduction of the Zimbabwe dollar, whose effect haven't been absorbed yet, the inflation outlook shows a gloomy picture unless there are positive shocks which are applied into the economy such as injection of substantial amount of foreign exchange.

"From February 2019, our observations are that inflation pressures which ensued were largely driven by exchange rate depreciation after liberalising the foreign exchange market. In this regard, year-on-year inflation continued on an upward path to 66,8 percent, 75,86 percent and 97,85 percent in March 2019, April 2019 and May 2019, respectively.

Figure 3.2: Month-on-Month Inflation (%)



Source: ZIMSTAT (2019)

Juxtaposing inflation dynamics with prices of basic goods

Table 3.1 shows that in line with inflation dynamics, the prices of basic goods tracked by the Consumer Council of Zimbabwe (CCZ) on a weekly basis rose by various margins, that is, margarine (66 percent), bread (71 percent), flour (34 percent), roller meal (56 percent), cabbage (130 percent) and washing powder (143 (see table 3.1).

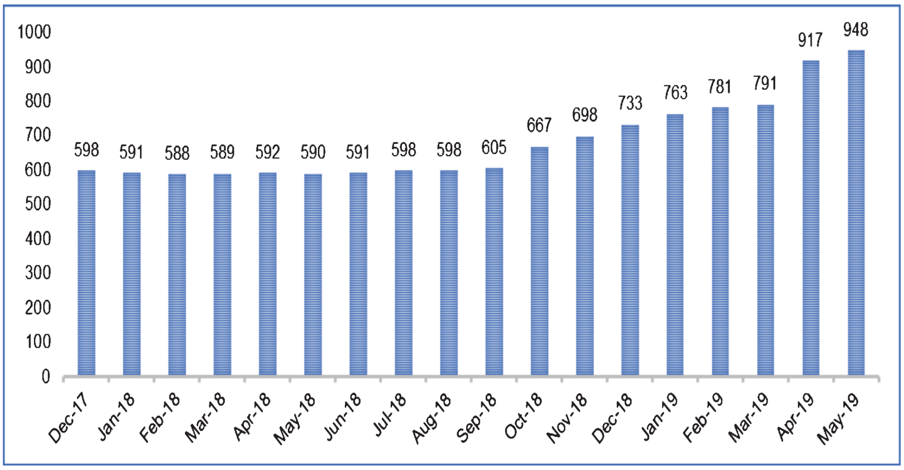
Whilst there are a number of factors at play on the causes of the upward increase of prices, we noted that the exchange rate variability (both in the formal and parallel market) which became more defined after liberalisation of the foreign exchange market has a direct positive impact on prices. Based on this observation, it is given that there is a direct impact on prices.

Table 3.1: Prices of Basic Goods Between February - May 2019

DESCRIPTION	February 2019 Prices $	May 2019 PRICE $	Change	% Change
Margarine 500g	3.99	6.61	3	66
Roller Meal 20kg	14.18	22.14	8	56
Brown Sugar 2kg	3.99	5.8	2	45
Tea leaves (100s)	2.42	3.56	1	47
Fresh Milk 500ml	1.58	1.82	0	15
Cooking Oil 750ml	3.92	5.69	2	45
Bread 700g	1.75	2.99	1	71
Flour 2kg	4.56	6.13	2	34
Rice 2kg	5.63	7.98	2	42
Salt 500g	1.74	2.44	1	40
Tomatoes 1kg	1.98	3.62	2	83
Onions 1kg	2.08	3.88	2	87
Cabbage 1kg	1.36	3.13	2	130
Meat 1kg (**Economy**)	9.92	11.3	1	14
Bath Soap	2.14	2.35	0	10
Laundry Bar	3.22	4.04	1	25
Washing Powder 500g	3.26	7.91	5	143

Source: Consumer Council of Zimbabwe (2019)

Figure 3.3: Trends in the Cost of Living for Family of Six (RTGS$)



3.3 The Tragedy of Piecemeal Policies on Inflation

From a policy making perspective, policy makers must always endeavour to apply the same principles used by medical doctors when attending to patients. Medical doctors, before they make prescriptions, always undertake various diagnostic tests and come up with a comprehensive dossier of drugs which may include antibiotic, pain killers, sleeping tablets and the one meant for the ailment.

These come in one doss. Sadly, in Zimbabwe, our policy making environment doesn't follow the same approach even if in economic theory is anticipated to do so. Evidence shows that in recent months the policy making process has been largely piecemeal (see Box1)

Undeniably, the measures pronounced by Government in box 1 were necessary. However, as in the ewxample of the medical doctor approach, the country would have been in a better place if all the measures announced in box 1 were announced and implemented at once, that is, during the reading of the 2019 National Budget Statement.

These are painful measures which the economic agents and households would have absorbed once and move on. It is a fact that the incremental impact of the measures on inflation cumulatively is higher than what could have been the impact of the same pronouncement if they were made one day!

Box 1: Selected Piecemeal Policies

Zimbabwe's policy making environmental in recent months have been largely characterised by piecemeal policy approach where the following policy pronouncements were made:

(a) On October 1, 2018, the fiscal and monetary policies authorities announced fiscal and monetary policy measures which saw treasury imposing the two percent tax on intermediated money transfer while the Central Bank separated the RTGS and nostro accounts. By separating the RTGS and nostro accounts it was clear admission by monetary authorities that the RTGS was no longer at par with the USD. As a result, the market reacted angrily to this announcement. The parallel market rate shot from around 80 percent to 700 percent inside a week. By the same token, the 2 percent tax, together with exchange rate pressures drove inflation on an upward trajectory;

(b) On October 5, 2018, Government launched the Transitional Stabilisation Programme. Inasmuch as it is a comprehensive policy which covers a wide array of the reform agenda, it had one specific aspect of currency reform which gave the clearest sign to actors that the 1:1 rate of RTGS and USD was on its way out. Businesses who read the TSP well, being rationale economic agents whose behavior is shaped by information at hand, bought foreign exchange to preserve value thereby pushing the exchange rate up;

(c) On November 22, 2018, Finance minister Mthuli Ncube announced the 2019 National Budget Statement which buttressed the 2 percent tax and added other inflation inducing tax measures which included payment of duty in foreign currency for selected manufactured and agricultural produce as well as motor vehicles. In addition, he made announcements to the effect that business was required to pay tax in the currency of trade. These measures continued to exert pressure on inflation;

(d) On January 12, 2019, Government raised the price of fuel by 150 percent, that is, partial liberalisation of the fuel sector. Again, this, in as much as was necessary at that point in time, added pressure on inflation considering the contribution of fuel in the economy;

(e) On February 20, 2019, in line with the TSP pronouncement of currency reforms, Central Bank disbanded the 1:1 exchange rate, that is, liberalized the foreign exchange market. Again, in as much as it was long overdue, the move led to cost push inflation through imported inflation as the cost of imports shot up on the back of exchange rate spike.

(f) On May 20, 2019, Government fully liberalised the fuel sector by allowing fuel dealers to access foreign exchange from the interbank market instead of the 1:1 rate which was sustained for the fuel sector regardless of the fact that the 1:1 rate was disbanded. Whilst this move was extremely necessary as it was both distorting and creating rent seeking behaviour. However, as noted, this move saw fuel prices rising thereby putting pressure in inflation

.(g) On June 24, 2019 Government disbanded the multiple currency regime and introduced the Zimbabwe dollar much to the shock of stakeholders.

Source: Authors Own Observations

Introduction

THE country's agriculture sector is diversified with various types of food and cash crops grown and a livestock sector comprising beef, small stock (goats, sheep and pigs), dairy and poultry among others.

According to the ministry of Agriculture (2012), tobacco, cotton, sugar, beef, horticultural produce, coffee and tea are the key agricultural exports from Zimbabwe. There is also a wide range of 'minor' crops such as sweet potatoes, round/bambara nuts, cowpeas among others that are grown and livestock species such as rabbits and donkeys that are reared in Zimbabwe.

In Zimbabwe, Agriculture occupies a central place in the Zimbabwean economy for employment, incomes and poverty reduction. It contributes 15-18 percent of Gross Domestic Product (GDP), 23 percent to the total formal employment, and provides livelihoods to approximately 70 percent of the rural population (54 percent of which are women).

It also supplies about 63 percent of industrial raw materials with the share of agriculture in manufacturing value added at 60 percent, and the share in export earnings at 30 percent.

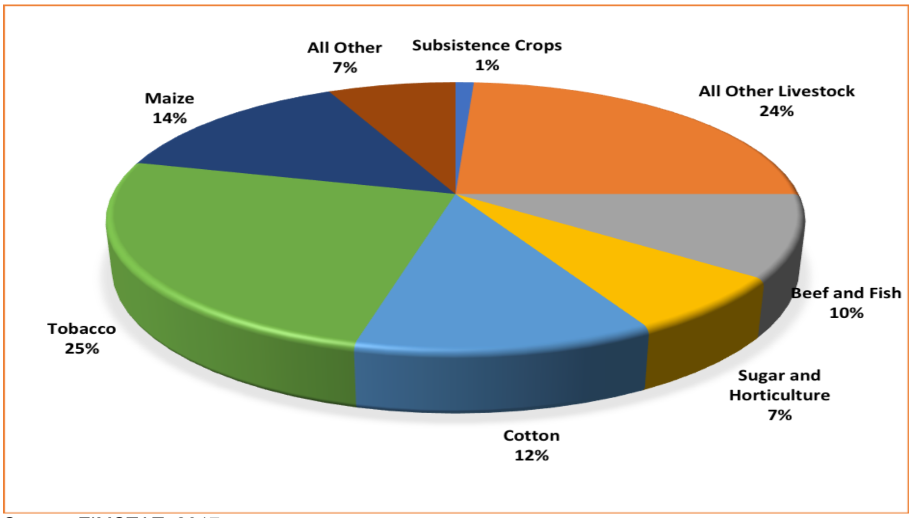
Ministry of Agriculture (2018) noted that 15 out of the 31 industry clusters in Zimbabwe depend on agriculture for feedstock. Agriculture-related employment supports a third of the formal labour force.

The agricultural sector employs 66 percent of the country's total labour force (FAO 2016).

Most of the employed in the agriculture sector are women, youth and elderly males. They are predominantly employed in small farms and engaging in auxiliary non-agricultural activities seeking to ensure some additional source of income. The overall skill level in the sector is comparatively low, farmers are hardly encouraged to develop professionally, the employee training possibilities offered are very limited.

Figure 2.1 shows the contribution of various commodities to agricultural GDP. Maize, tobacco and cotton account for more than 50 percent of the agricultural GDP, with tobacco leading the pack with 25 percent, followed by maize at 14 percent, and cotton at 25 percent.

Figure2.1 Contribution of various agro sub-sectors to Agriculture GDP



Source: ZIMSTAT, 2017

Ten percent is accounted for by the beef and fisheries sectors, whilst about 24 percent is devoted to the rest of the livestock like sheep, goats, pigs, poultry and ostrich. Within the milieu of commodities; tobacco, cotton, sugar, horticulture, tea, and bananas collectively account for about 40 percent by value of national exports.

The performance of the agricultural sector therefore has a direct bearing on overall national economic performance, and on human development especially with regard to national and household food and nutrition security.

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Trends in Crops Production

THE main food and cash crops in Zimbabwe include maize, wheat, small grains (millets and sorghum), tobacco, cotton, sugar, horticulture (food and non-food), and groundnuts. The research noted that over the years crop production in Zimbabwe is highly variable due to the heavy reliance on rain-fed agriculture.

The stakeholders interviewed underscored that changing climatic conditions and frequent droughts contribute heavily to the volatility in crop production. With the exception of tobacco and macadamia, production of maize, sorghum, millet and other cash crops has continued to trend downwards compared to 1985 production.

At the centre of this reduced production is very low productivity. Average productivity of both food and cash crops across all farm types has been declining between 1985 and 2016.

For example, maize yields declined from an average 1.2 metric tonnes per hectare between the period 1990 to 1995 to an average of 0.749 metric tonnes between the period 2010 to 2016.

These yields have lagged behind those of neighbouring countries such as Malawi, Zambia, Mozambique and South Africa as well as global averages. This observation is the same across most food and cash crops, a situation requiring urgent attention.

One of the striking observations is that the national average yield of 0.749 metric tonnes per hectare was significantly weighed down by small scale farmers, which represent 78 percent of land under maize production, whose output per hectare was around 0.68 metric tonnes per hectare while the yields by commercial farmers are modest at an average of 3.5 tonnes per hectare.

The study noted small scale farmers lack the necessary resources, infrastructures and proper agronomic practices to boost their yields. A robust production and productivity enhancement programme driven by the government targeting low yielding small holder farmers will go a long way in securing the nation's food security while at the same time increasing small holder farmer earnings since they will be able to produce a surplus.

On the contrary, tobacco and macadamia have well integrated value chains with strong backward and forward linkages to sustain and improve high production and productivity levels.

In the same vein, strong value chains as witnessed in the tobacco sector, contributed to massive production regardless of the fact that the same communal farmers who are growing tobacco doesn't have security of tenure.

In the tobacco sector, the contracting companies are playing the role of an aggregator which uses its strong balance sheet and borrow money from the banks on behalf of the poor farmers thereby acting as farmers "collateral".

The striking feature of the tobacco sector is that it is a liberalised sector whose product is sold at the auction. This situation provides an efficient price recovery system and enhancement of derivatives which is totally the opposite of crops like grains which have price floors which in a number of cases more than twice regional prices thereby discouraging companies to finance agricultural production.

In order to unlock funding into agricultural sector and even attracting international lines of credits as noted in the tobacco sector, Government must liberalise the agricultural sector and one such mechanism is through the operationalisation of the commodity exchange.

"One of the striking observations is that the national average yield of 0.749 metric tonnes per hectare was significantly weighed down by small scale farmers, which represent 78 percent of land under maize production, whose output per hectare was around 0.68 metric tonnes per hectare while the yields by commercial farmers are modest at an average of 3.5 tonnes per hectare.

Trends in livestock

THE livestock sub-sector is an important and integral part of the agricultural sector with beef, dairy, small ruminants, pigs, poultry, apiculture, aquaculture and other small and emerging stock making up the livestock industry. The sub-sector contributes about 19 percent to the agricultural GDP (ministry of Agriculture, 2018).

The land redistribution exercise has increased the participation of more than 300,000 newly resettled farmers with varied skills and resources in livestock farming. This transformation of the livestock sector has led to substantial shifts in ownership, use, and livestock management; and associated effects on animal disease management, production and marketing.

The study noted that on one hand, livestock herd sizes nationally declined by about 20 percent for beef, over 83 percent for dairy, and 26 and 25 percent for pigs and small ruminants, respectively. While the other livestock species did not recover, the dairy sector is noted to have defied the declining trends due to the presence of an integrated value chain.

On the other hand, the productivity of smallholder cattle herds remains very low, with average calving rates of about 45 percent against a potential of 60 percent, and off-take rates of about 6 percent against a recommended 20 percent.

From the study, it was crystal clear that the average slaughter rate was around 5 percent of total head. The low slaughter rate was largely contributed by the fact that small scale farmers who controlled 69 percent of the total head keeps cattle as a store of wealth and as a sign of wealth and hence sees slaughtering as wastage. With this observation, it therefore means that small scale-farmers are not sweating value in their cows something which could happen if they were slaughtering and restocking. This observation saw similar in other ranges of animals such as goats, sheep and pigs.

Challenges faced in the sector due to the transformation were identified as outbreak of diseases, lack of access to affordable funding, expensive inputs when compared to the region and depressed cereal production.

Against this background, there is need to train farmers with a view of building their capacity to run cattle and animal rearing as a serious business. In addition, there is need to create strong value chains linkages between farmers, the Cold Storage Company, meat processors and abattoirs.

"The low slaughter rate was largely contributed by the fact that small scale farmers who controlled 69 percent of the total head keeps cattle as a store of wealth and as a sign of wealth and hence sees slaughtering as wastage. With this observation, it therefore means that small scale-farmers are not sweating value in their cows something which could happen if they were slaughtering and restocking. This observation saw similar in other ranges of animals such as goats, sheep and pigs.

Given that livestock producing districts are in semi-arid conditions key informants noted that Government should incorporate drought mitigation measures in the Command Livestock programme for example through setting up community livestock centres with access to supplementary feeding.

The livestock centres which can be operated by the private sector or farmer groups will be designed to provide attendant services to small scale farmers such as cattle buying points, livestock input selling points and farmer training points. Furthermore, the community livestock centres can also be used as artificial insemination and bulling points in a bid to improve rural livestock genetics and quality of beef herds.

Department of Veterinary Services was urged to put in place measures that completely eradicate the continuous outbreak of diseases such as FMD and Avian Influenza Virus.

Furthermore, enforcement and review of statutes on animal health ought to be timeously carried out to avoid unnecessary disease outbreaks. Effective management of the FMD problem can be achieved by moving towards a more decentralised marketing and slaughter

system. This development would require the construction of abattoirs in strategic locations with a complementary marketing system that minimises transportation of live animals from high risk areas to low risk areas.

Stakeholders advocated for the implementation of a value chain focused livestock policy whose traits are; enhancement of efficiencies along the livestock value chains, security of livestock resources against natural and man-made disasters, equitable development of livestock value chain stakeholders and protecting consumers against risks arising from livestock development.

Overall Assessment of the State of Infrastructure

INTERVIEWS and focus group discussions with key stakeholders reveal that the country's agricultural infrastructure is in a poor state, poor road network and abundant under-utilised water bodies for irrigation. It was also evident that smallholder farmers who own 73 percent of the productive land have not been able to invest in infrastructure and farm equipment thus confirming observations made by the ministry of Agriculture that agricultural investment sharply declined over the past 18 years.

As a result, lack of appropriate infrastructure and technologies in the agriculture sector has adversely affected overall production and productivity outlined in the section on production trends. Some of the key informants pointed out that investment in agricultural infrastructure has been on the decline because of the nature of the new agrarian stakeholders who do not prioritise in reinvestment of proceeds to develop farms, farming areas and the community at large.

Investment in irrigation infrastructure has not been realised over the past years and some of the infrastructure availed through government programmes lies idle at farms. Poor schedules for repairs and maintenance has left the sector with little functional irrigation equipment. According to the ministry of Agriculture (2018), of the 39.6 million hectares of land in the country, about 42.1 percent is utilised for agriculture, with about 365,000 Ha of land suitable for irrigation.

However, less than 50 percent of this is currently equipped for irrigation out of which about 123 000 hectares is currently irrigated mostly by commercial farmers and smallholder irrigation projects.

On average the study noted that both flooding irrigation and sprinklers, combined, has an average frequency of about 60 percent (see table 5.3 and table 5.4) which results in massive wastage of water through evaporation something which must be avoided through the use of drip irrigation if the country is to mitigate the effects of climate change which comes with low water levels. This frequency is closely linked to the hectarage under flooding and sprinklers. Using 2015 figures, 50.6 percent of hectarage was under flooding and sprinklers irrigation.

The study noted that poor agricultural infrastructure has adverse effects on the farm activities which increases the cost of production thereby reducing the farmers' competitiveness. For example, transport costs depend on the state of the road, in tarred road transporters charge \$0.13 per metric tonnes per kilometre while in gravel roads the cost goes up to \$0.21 per metric tonnes per kilometre. Most roads in Zimbabwe are in a bad state and the once existing network of strip roads in farming areas has been reduced to dusty roads which are impassable in other areas.

Information gathered during the survey indicated that for the agriculture sector to prosper there should be an established road network to easy the transportation of inputs and produce. In that regard, respondents suggested that a road fund be established for rehabilitation and maintenance of farm strip roads and communal roads and construction of new roads in newly resettled areas.

"Investment in irrigation infrastructure has not been realised over the past years and some of the infrastructure availed through government programmes lies idle at farms. Poor schedules for repairs and maintenance has left the sector with little functional irrigation equipment. According to the ministry of Agriculture (2018), of the 39.6 million hectares of land in the country, about 42.1 percent is utilised for agriculture, with about 365,000 Ha of land suitable for irrigation.

In this regard, it is important that the Government works on a comprehensive approach to revamp infrastructures in the agricultural sector in Zimbabwe. In this approach, it is important that Government create an enabling environment for private sector to invest into agriculture through tax incentives.

In addition, Government of Zimbabwe, as part of its capital expenditure should consider investing in physical infrastructure in the farms by putting more emphasis on communal farmers who were found to be unproductive.

Funds used in Command Agriculture can be earmarked for this exercise. This view was supported by a number of respondents who were interviewed. The respondents whilst they appreciated the impact of Command Agriculture in addressing structural rigidities in the agricultural sector, they argued that if the same funds are channelled towards infrastructure development, there are high chances that this will create an enabling environment for investment to come into the sector through value chain financing models.

Access to Finance

INTERNATIONAL experience as noted by FAO (2017) shows that there is a positive causal relationship between access to finance in the agricultural sector and agricultural productivity.

In Zimbabwe, evidence shows that commercial farmers who have access to funding are getting yields averaging 3.5 metric tonnes per hectare while communal farmers who rarely get funding produce around 0.75 metric tonnes per hectare.

However, what was striking to note is the fact that 85 percent of the banks interviewed are lending less than 10 percent of their total loans. Outside the traditional loans from the banks, the study noted that the major source of funding which was made available to farmers was through contract farming and presidential input support.

The study noted that where contract farming was used, the contracting company became the aggregator and on the back of the strength of its balance sheet has been able to access fund the farmers who have no collateral. This has resulted in the elimination of the challenges related to security of tenure.

This observation was largely noted in the tobacco, seed industries, food and beverages sectors. However, one key feature which enabled the enhancement of these value chain financing models relates to the business environment in these sectors. For example, in the tobacco sector, the crop is sold under an auction system which allows for efficient price recovery as opposed to cereals such as soya bean, maize and wheat which are under price control regime.

Based on this foregoing, it is important that Government liberalise the agricultural sector and operationalise the commodity exchange which will come with effective financial instruments such as warehouse receipts and derivatives which were noted to be effective in funding agricultural sector globally.

In the same vein, fiscal incentives aimed at supporting companies who are funding agricultural sector under contract farming should be considered with a view of encouraging the practice.

Role of markets

Evidence derived from this research shows that 85 percent of the outputs from the agricultural sector is channelled towards local market whilst 15 percent of the produce is exported. The study noted that 25 percent of is sold at farm gate whilst 75 percent of the output is marketed via various wholesale and retail markets. Farmers interviewed bemoaned post-harvest losses at the farm and loss of margins as a result of the middlemen. It was also observed that farmers, in many cases, failed to meet the market needs in time.

One way to improve access to markets for grains is to establish the commodity exchange (see Box 2). Further, enactment of the backward integrated policy in line with local content policy as noted in Nigeria by World Bank (2017) was seen as an effective tool of creating market linkages.

An integrated value chain comprised active out grower schemes and synergies with retailers and processing companies guarantees a market to farmers thereby reducing post-harvest losses.

Box 2: Unlocking Finance and Markets Through Commodity Exchange

AFRICA'S smallholder farmers have long been victim to fragmented, disorganised markets where they have had to sell their products for lower than the market price.

Commodity exchanges offer more stable, more ethical trading platforms whereby farmers can benefit from fairer transactions and learn how to make wiser marketing and investment decisions. There has never been a better time to increase the number of commodity exchanges in Africa and ensure fledgling farmers have every chance of survival. Africa's poor tend to be its smallholder farmers.

They remain poor because they have no money to buy good quality seeds and fertiliser and no money to invest in machines or techniques that can optimise their farming (e.g. irrigation). With little infrastructure to connect their villages to the markets where agri-products are bought and sold, they are left cut off from a stable and profitable supply chain. This type of market fragmentation means that many African smallholder farmers are caught in a cycle of poverty. UNCTAD noted that the fragmentation of farmers led them to exploitation of farmers. In a pattern established over decades, various intermediaries, from private traders to public marketing boards, have taken advantage of the disorganised markets.

Typically, such intermediaries can enjoy being the only purchaser a farmer has contact with. This lack of competition means they can ensure that a farmer has no choice but to take whatever price is offered.

This is sometimes as low as 10 per cent of the on-going market price (UNCTAD, 2014). Organised and regulated commodity exchanges were noted as effective platforms for the provision of revolutionary changes to the way African smallholder farmers fare.

UNCTAD (2014) explained the benefits of commodity and derivatives exchanges as well as a concise explanation of why they are important: "Commodity Exchanges are highly efficient platforms for buyers and sellers to meet; primarily to manage their price risks better, but also to improve the marketing of their physical products.

They [make] economies more inclusive, boosting the links between agriculture and finance, and making the commodity sector more efficient and competitive." A study conducted under the auspices of UNCTAD identified a total of 69 positive impacts that commodity and derivatives exchanges offer. The most important can be summarised as follows: Quick and easy dissemination of market price and other information which farmers would not otherwise have access to.

This can be achieved without any dramatic technological advances: in India, for example, the national post office delivers daily price information to villages, which is then displayed on blackboards in prominent places.

Once farmers know what the market price is, they can enjoy fairer negotiations with purchasers and can make more informed judgements on what to invest in the future and how to market it. A free and open auction system which ensures farmers can sell their goods close to the market price, or even above it. This is another feature that can help farmers make more informed decisions on their future farming activities such as what to invest in and how to diversify their sources of income.

The opportunity to 'hedge' against volatile prices, meaning farmers can 'lock in' their sales price at the time of planting particular crops. This way farmers can enjoy an element of certainty about the price they will receive at harvest and can budget accordingly. They can choose which crops to grow and judge when is the best time to sell them on the market, minimising the risk of losing revenues as prices fluctuate.

Fewer risks to financiers, who can use warehouse receipts as collateral ready to liquidate in an event of default. Traditionally, financiers have considered agriculture as a high risk and low profit business for standard modes of bank-lending. As a consequence, farmers and others in the commodity value chain pay disproportionately high levels of interest.

Through commodity exchange 'eco systems' (such as warehouses) forms of financing have been developed that can reduce financiers' risk and costs of delivery by linking traditional financial tools with commodity exchange services.

A stimulus for infrastructure development, as an exchange, by definition, can only truly flourish with as many participants as possible. More commodity exchanges would provide African governmental bodies and investors with an impetus to create better roads to connect farmers to markets and reduce fragmentation.

Source: UNCTAD (2014)

Impact of Climate Change

THE research shows that climate change vulnerability which came in the form of droughts, floods and late rains negatively impacted on productivity in the agricultural sector. Against this background, there is need to come up with practical measures aimed at mitigating and adapting to the effects of climate change.

One effective way which has been adopted by the United Nations Framework Convention on Climate Change to compact climate change is the adoption of climate-smart agriculture which aims at sustainably increasing food security and incomes, and adapting and building resilience to climate change.

Climate — smart agriculture connects other innovations, such as conservation agriculture, agroecology, agroforestry and the development of crop varieties that are more tolerant to pests, diseases, drought, waterlogging and salinity (FAO, 2013).

FAO (2017) noted that climate-smart agriculture has promoted mixed crop-livestock systems and sustainable livestock production, which integrate environmental and production objectives through, for example, the rotation of pasture and forage crops to enhance soil quality and reduce erosion, and the use of livestock manure to maintain soil fertility.

In climate-smart agriculture, agro-forestry systems are an important means of sustainably producing food while conserving ecosystems, especially in marginal areas prone to environmental degradation. Zimbabwe can work with development partners such as the DFID who are already working with farmers in Zimbabwe in compacting climate change through climate smart agriculture.

Trends in Food Prices

After peaking in 2008 and again in 2011, FAO's real food price index has fallen back to levels reached in the early 1980s, although it remains well above the low levels of the 1990s and early 2000s. The most recent joint report by FAO and the Organisation for Economic Co-operation and Development (OECD) provides a somewhat mixed picture of medium-term developments in real food commodity prices to 2025. FAO and OECD noted that while the prices of meat and cereals, with the exception of coarse grains, are projected to decline in real terms, prices for dairy products will tend to rise over the next 10 years.

FAO and OECD notes that future levels of food prices depend, among other factors, on how production will be able to accommodate tightening resource constraints and climate change.

Climate change may jeopardise the possibility of expanding agricultural yields in some regions of the globe, which is required to meet growing demand; the result would be upward pressure on prices (FAO, 2016c). In addition, mitigation policies may require the internalisation of carbon-emission costs.

Furthermore, prices in the long run may also rise, as long as there will be a need to reduce emissions of greenhouse gases (GHGs) emissions in order to comply with international agreements on climate change. However, adopting these mitigation measures would impose additional costs (at least in the short run), which would put upward pressure on output prices (Smith et al., 2014).

This observation is expected to affect the competitiveness and viability of farmers in developing countries which includes Zimbabwe. Going forward, in order to mitigate possible losses coming on the back of subdued prices, it is important Zimbabwe implement measures that aimed reducing the cost of doing business in the agriculture as well as raising productivity.

"Climate change may jeopardise the possibility of expanding agricultural yields in some regions of the globe, which is required to meet growing demand; the result would be upward pressure on prices (FAO, 2016c). In addition, mitigation policies may require the internalisation of carbon-emission costs.

Introduction

Zimbabwe has the potential of extracting more than 40 minerals economically for export and value addition. In terms of world mineral facts and statistics, Zimbabwe is the third largest producer in the world, the sixth largest diamond producing country, the fifth lithium producing country, the seventh chrome producing country, within top ten ranking gold producing country and the tenth largest nickel producer.

The activities in the mining sector remained predominantly concentrated on six key mineral categories (gold, PGMs, diamond, nickel, chrome and coal) accounting for 95 percent of the value of minerals generated as of 2018. The emergence of lithium onto the global mining space has brought a new dimension to the Zimbabwe mining sector.

The mining sector in Zimbabwe has the potential of promoting the reindustrialisation of Zimbabwe, industrial growth, maintenance and development, therefore the mining sector is critical in re-establishing the economy of Zimbabwe. In addition, the country has the capacity to break resource curse if linkages are properly implemented.

These linkages are either downstream – linkages into mineral beneficiation and manufacturing or upstream – linkages into mining capital goods, consumables and service industries or side-stream – linkages into infrastructure, skills and technology development.

In Zimbabwe, minerals are ranked number one in terms of export earnings with gold ranked first among the minerals and gold alone contributing a significant four percent (4 percent) of Gross Domestic Product (GDP). Zimbabwe's mineral production reached US$970,5 million in the four months to April 2019 with gold accounting for 38 percent of that amount at US$383,8 million (Minerals Marketing Corporation of Zimbabwe (MMCZ) 2019).

The country's small-scale gold producers contributed the most, accounting for 5,3 tonnes, while large-scale producers and secondary producers contributed 3,3 tonnes and 595kg respectively as at end of April 2019.

Almost all major minerals reflected an increase in volume production in 2018 from 2017 with decline realised in high carbon ferrochrome. Gold was exceptional with production for 2018 hit a record 35.054 tonnes up from 26.494 tonnes in 2017.

Trends in Production in Major Minerals

Table 5.1: Production Trends in selected Minerals in Zimbabwe

Mineral	Unit	Total production Volumes			
		2015	2016	2017	2018
Gold	t	20.02275	22.747.26	26.49476	35.054.41
Platinum	t	12 563.59	15 109.56	14 291.96	14 703.67
Nickel	t	16 108.63	17 743.31	16 594.11	17 849.82
High Carbon Ferrochrome	t	115 586.00	148 842.00	328 586.44	287 145.17
Coal	t	4 336 193.00	2 514 934.00	2571417.00	3347764.00
Palladium	t	10.05528	12. 22168	11.80001	12.09372
Diamonds	carat	-	1 734 919.00	2 507 862.00	3 252 418.29

Source: Chamber of Mines (2019)

Table 5.2: Mineral Export Trends for Minerals in Zimbabwe

Mineral	Years (US$)			
	2015	**2016**	**2017**	**2018**
Precious stones and metals	846 017 000	1 020 695 000	1 019 732 000	1 346 721 000
Nickel and articles	22 412 000	34 976 000	436 209 000	525 294 000
Ores, slag and ash	228 036 000	318 645 000	469 623 000	497 182 000
Iron and steel	164 963 000	122 519 000	282 049 000	251 778 000

Source: International Trade Centre (ITC) (June 2019)

Trends in Exports in the Mining Sector

Major mineral exports in Zimbabwe are gold, PGMS, nickel, chrome iron and steel. Precious stones and metals which include gold, diamonds and PGMS raked in more than a billion dollars in 2018 (US$1 346 721 000) which is drive towards a multi-billion sector economy. General mineral exports were on the upward trend for Zimbabwe but gold as the current major contributor to the mineral GDP. (Table 5.2)

Exchange Controls and Mining Sector

Foreign exchange controls affect the mining sector through retention ratios for the mining industry and exchange rate disparities resulting in mismatch between revenue and the costs. Foreign currency retention ratios for the mining sector are set by the Reserve Bank of Zimbabwe.

Currently gold mining sector retains 55 percent of export receipts and the rest of minerals retain 50 percent. Mines import 90 percent of their inputs, meaning that most production cost are denominated in hard currency whilst 65 to 75 percent of revenue is received as local electronic funds.

Recommendations for Exchange Controls by Mining Companies

1. Government to review retention levels for the mining industry in line with the actual US$ costs that are obtaining on the market for inputs.
2. Government should consult players in the sector such that the exchange controls will not cause black market trading or smuggling of minerals to neighbouring countries.
3. Since most mines import 90 percent of their inputs, government should consider prioritising what exactly is being imported and how the imports can be met from the exports without negatively affecting the mining sector and jeopardising foreign receipts.

Trends in Prices in Major Minerals

FIRMING prices of minerals in general have a positive effect on mineral production in Zimbabwe as this improves revenues, returns and profitability.

Such increase in prices is expected to improve production in the sector and attract foreign investors to invest in the sector.

Prices of gold have been above the US$1 200 over the period October 2018 to May 2019 which is above the expected cost of production per ounce. However, platinum, nickel and coal prices were declining over the period. (Table 5.3)

Mining Sector Competitiveness Challenges

The competitiveness of the mining sector is influenced by infrastructure challenges, high cost of doing business, costly and inflexible labour markets, tax burdens, inconsistent policies, tax burden and poor investment climate.

The major cost drivers are procurement (49 percent), labour and or wages (23 percent), statutory payments (14 percent) and energy (10 percent). Given that most mines procure 90 percent of their inputs outside the country and require foreign currency, retention policy is going to affect negatively the operations of most mines. The sector face high electricity tariffs of US$0.128 (12.8 cents) per KWh which is too high.

The sector also complains of water charges which are US$50/megalitre which are too high compared to other countries averaging US$6/megalitre. There is an upward pressure for most mines to review upward labour remuneration due to increase in inflation. Increase in labour cost is likely going to compound cost of doing business.

The competitiveness of doing business for the mining sector has been negatively affected by high cost of doing business in Zimbabwe coupled by high cost drivers, poor infrastructure, unrealistic foreign currency controls accelerated by foreign currency receipts retention, high tax burdens and inconsistent policies. These resulted in increased average operating cost per mineral as shown in Table 5.4.

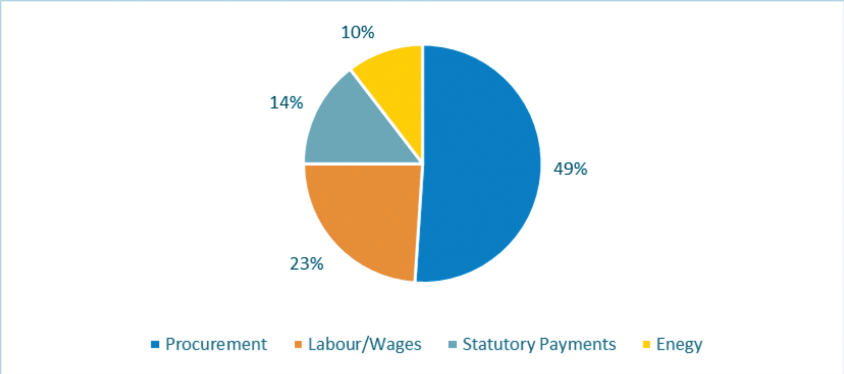
Average cost per unit of mineral is at an upward trend for many minerals from 2016 up to 2018 based on Chamber of Mines and In-depth Interviews signalling the need to improve the mining sector operations.

Table 5.3: World Average Commodity Prices of Selected Minerals (Past 7 Months)

Mineral	Unit	Month on Month Mineral Commodity Prices							
		Oct 18	**Nov 18**	**Dec 18**	**Jan 19**	**Feb19**	**Mar 19**	**Apr 19**	**May 19**
Gold	$/troy OZ	1 215.39	1 220.65	1 250.40	1 291.75	1 320.07	1 300.90	1 285.91	1 283.70
Platinum	$/troy OZ	829.87	846.19	791.16	806.77	818.15	842.81	887.29	833.55
Nickel	$/mt	12314.91	11239.72	10835.08	11523.09	12685.23	13026.27	12772.79	12016.31
Coal*	$/mt	100.34	91.59	95.41	91.29	84.16	78.81	72.49	68.93

Source: World Bank Commodity Prices (4 June 2019)

Figure 5.1 Cost Drivers in the Mining Sector



Source: Chamber of Mines (2019)

Arguments for Retentions on Mining Companies

Given the cost of operation per unit of mineral and world commodity price, a retention of say 55 percent of revenue proceeds from gold export let's say in May 2019 the price per ounce is $1283.70 will result in US$706.04 being retained and US577.66 being converted at the interbank rate. And the company will get whatever receipts based on the prevailing interbank rate.

Given the estimated production cost of US$1054 per ounce in 2018, it means that the company is short of US$347.96 which the company has to finance by buying foreign currency from the parallel market or at the interbank to meet the production cost given that 90 percent of the inputs are imported. This shows that there is a shortfall-gap created by the Reserve Bank in terms of retentions enforced to the mining sector. Any further fall in world commodity prices is unfavourable for Zimbabwean companies as this will make them operate at a loss. If they cannot improve on the quality of ore per tonne, mining companies will be operating at a loss.

Table 5.4: Average Operating Cost by Mineral

Mineral	Year 2016	2017	2018
Gold $/ounce	1 001	1 028	1 054
Nickel $/tonne	5 567	5 631	5 780
Chrome USD/lb Cr	0.88	0.86	0.91
PGMs $/ounce (Cash Operating Cost)	688	695	701
Diamond USD/Carat	25	45.3	49.2

Red figures are from in-depth interviews with some mines in Zimbabwe.

Source: Chamber of Mines (2019) and In-depth interviews (2019)

Taxation and its Impact on Mining Business

THE mining industry remained predominantly suboptimal due to several taxes, fees and charges for the sector. There are now 15 taxes to the mining sector with the addition of 2 percent IMT tax, which is paid upfront, an additional burden to the mining industry, which is already operating in a punitive tax framework (14 taxes). Royalty levels are considered high compared to other mining jurisdictions in the region, with diamond at 15 percent being the highest in the region.

Mining fees and charges are high and unaffordable and these are weighing down the viability of the mining sector. There is also concern over Rural District Councils (RDCs) fees and charges which are high, unaffordable and vary with district. Mining companies are also concerned over the manner in which RDCs determine unit taxes (based on RDC budgetary requirements).

Recommendations for taxes by Mining Companies

1. The government of Zimbabwe should consider bench-marking royalty levels with regional peers.

2. The government should consider reviewing and streamline mining fees and charges in line with those obtaining in the region – this would restore viability of the mining sector and its attractiveness to investors in the sector.

3. RDC unit taxes be rationalised (reduced) and be administered by Treasury

> *"With respect to the instrument, the operation of Nostro FCAs will remain for purposes of receiving funds from offshore and facilitating foreign payments. All types of existing Nostro FCA accounts remain operational for receipt and settlement of international payments.*

Overall Recommendation

The mining sector is one of the critical sectors for Zimbabwe, given what it contributes in terms of exports and GDP. For the sector to continue having the contribution, the following are recommendations for the sector.

Suggested Key Recommendations for the Mining Sector

1. Wide consultancy of the cost of production versus retention proportions

2. Government continues improving on the ease of doing business reforms

3. Finalise amendments to the Mines and Minerals Act

4. Relook at the current Indigenisation Act on Platinum and Diamond as it remains contentious

5. A relook at the labour markets as they remain costly and inflexible.

Unpacking Statutory 142 of 2019

Statutory Instrument 142/2019 gazetted by the minister of Finance and Economic Development on the removal of the multi-currency system in Zimbabwe and replacing it with local unit of account ZWL (RTGS$/BOND NOTES & COINS) for local transacting purposes as well as the Exchange Control Directive RU102 dated 25 June 2019. SI 142 resulted in the introduction of Interbank Foreign Exchange Market as provided for by a Press Statement dated 24 June 2019, issued by the Reserve Bank of Zimbabwe on strengthening the Interbank Foreign Exchange Market.

In terms of the instrument any domestic transaction initiated before 24 June 2019, and thereafter, should be settled in ZWL (Zimbabwe Dollars). Any holder of foreign currency, who intends to settle domestic transactions, the holder should exchange the foreign currency at a commercial bank or Bureau de Change, at the prevailing interbank market rate.

With respect to the instrument, the operation of Nostro FCAs will remain for purposes of receiving funds from offshore and facilitating foreign payments. All types of existing Nostro FCA accounts remain operational for receipt and settlement of international payments. Domestic Nostro FCA accounts shall be allowed to receive deposits of cash realised from business transactions conducted before June 24, 2019. Nostro FCA domestic can still receive funds from offshore sources for services rendered locally, e.g. transporters, consulting firms etc. This extends beyond the 30 June 2019 deadline. Cross border transactions (i.e. foreign payments); Salaries for employees working for Non-Governmental Organisations, International Organisations, Embassies; Air tickets from foreign airlines, and Customs duty on luxury goods can be settled in foreign currency.

The instrument specified that for individuals, cash withdrawals shall be for the purpose of meeting foreign travel expenses and are subject to application of the Know Your Customer (KYC) principles and Anti Money Laundering (AML) Standards.

Corporates (such as cross-border transporters for road toll fees, etc.) are permitted to access foreign currency cash on a case by case basis subject to KYC and AML principles considerations on the withdrawal. Embassies, NGOs and International Organisations have no restrictions in accessing their foreign currency cash.

A limit equivalent to US$2 000 per exit on your person or baggage. Any amount of foreign currency above US$2 000 requires prior written approval by the Reserve Bank.

The instruments provided that tobacco farmers can receive part of their sales proceeds in USD deposited into their Nostro FCA accounts. Accounts will continue to be administered as per current arrangements. In the event the tobacco grower intends to meet local obligations, foreign currency sale proceeds must first be converted to ZWL through the normal banking channels. Diaspora remittances shall continue to be received in foreign currency. The recipients shall have the option to receive the remittances in cash or sell their remittances on a willing buyer / willing seller basis to bureaux de changes and banks or deposit into individual Nostro FCA accounts. Local service providers must invoice in local currency.

Implications of the SI 142

The introduction of the Zimbabwe dollar was hurried. Contrary to the minister of Finance and Economic Development that the country had met the minimum requirement for introducing the new currency since it is posting budget surpluses, the country didn't meet the following minimum conditions:

(a) Fiscal consolidation, according to Organisation for Economic Cooperation and Development (OECD), fiscal consolidation is defined as concrete policies aimed at reducing budget deficits and debt accumulation. In our case, the national debt is in the region of around US$9 billion whilst domestic debt is $8.8 billion.

From debt perspective, we haven't moved any inch. With respect to budget deficits, yes there has been significant progress made by Government in restoring fiscal discipline.

Review of the Supplementary Budget

However, in as much as the minister of Finance and Economic Development has reported budget surplus of $800 million to date, our view is that this is not a true reflection of the state of affairs of the fiscal position since subsidies which are either implied or expressed, for example, electricity, water, transport and various government rates which include tuition fees at tertiary institutions have not been accommodated in the budget to the extent that if full consolidation is taken into account the so – called budget surplus may be wiped out.

(b) Single digit inflation, the current inflation levels on an annual basis stand at 176 percent. Going forward, there is no indication that inflation pressures will retreat downs considering the fact that the country inflation is largely exchange rate induced as well as cost push. The cost push pressures are expected to come from demand on wages and salaries, taxes and fuel costs and the recently adjusted fees and rates. With respect to the exchange rate spiral, in the absence of sustainable supply of foreign exchange, there is no guarantee exchange rate will stabilise

(c) One - year import cover, at the very minimum, the country must have an import cover of six months to one year. In our case, we should have foreign exchange of US$3 billion and US$6 billion for six months and twelve months, respectively. The current state of affairs shows that the country less than one month import cover which is not enough to back the country.

(d) Stable exchange rate, the exchange rate as witnessed has continued to depreciate on the back of mismatches between demand and supply of foreign currency (see (c) and (b)).

Based on the foregoing, there is no doubt that Government hurriedly launched the Zimbabwe dollar and the question as to whether the currency will hold fort as a store of value is in serious doubt. Rather, we bought our ticket for 2008 unless if and on if Government implements the following measures:

(a) Eradicate corruption which is resulting in wastage of scarce resources;

(b) Substitute unnecessary imports which will help the country to save foreign currency;

(c) Restoration of confidence by coming up with credible, consistent and predictable policies;

(d) Restore power supply and other key infrastructures such as water.

Zimbabwe unveiled a ZW$10,85 billion supplementary budget to cushion the escalating expenditures for the 2019 Budget. Mid-Year Budget Review Statement anchored on the theme "Building a Strong Foundation for Future Prosperity". The supplementary budget also touched a string of measures to cushion workers while stimulating domestic growth and increasing revenue.

The budgetary review highlights that monthly revenue collections for the first six months amounted to ZWL$5.0 billion, against expenditures of ZWL$4.2 billion. A cumulative budget surplus of ZWL$803.6 million was therefore realised in the first half of 2019.

In line with the changes in the macro-economic conditions and updated fiscal and monetary policy framework, the major take for employees is a review of the tax-free threshold from ZW$350 to ZW$700 (monthly) which is intended to cushion taxpayers and stimulate aggregate demand for goods and services. Further, the budget proposed widening of the tax bands to a maximum of ZW$30 000, above which income is taxed at the marginal tax rate of 40 percent, with effect from 1 August 2019. This excludes employees that earn in foreign currency who shall continue to settle their tax liability in foreign currency. The budget proposed a review of the tax-free threshold from the current ZWL$10 to ZW$20 for the 2 percent IMT and the maximum tax payable per transaction by corporates from the current ZWL$10 000 to ZW$15 000 for transactions with value exceeding ZWL$750 000.

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Review of the Supplementary Budget

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The Mid-Year Review provides an updated 2019 fiscal framework with projected total expenditures of ZWL$18.62 billion, against anticipated revenue collections of ZWL$14.1 billion. The projected expenditures are inclusive of a proposed supplementary budget of ZWL$10.85 billion. The country has unplanned expenditures covering cushioning allowances for civil servants, cost of living adjustment allowance of ZWL$400 million implemented starting from April, pension reviews, filling of critical posts at a cost of ZWL$58 million, Cyclone Idai mitigation, subsidised mass public transport, social protection and infrastructural programmes.

The country reduced its domestic debt stock, which stood at ZWL$8.8 billion as at end June 2019 down from ZWL$9.5 billion in December 2018 that is a reduction of 7.4 percent.

In support of industry the budget extended rebates to the clothing and electrical manufacturers, suspended duty on commercial tyres and duty on solar batteries in view of the gap in local production among other incentives.

The budget reveals that month-on-month inflation averaged 12.4 percent in the first half of 2019 against 6.4 percent recorded in the last half of 2018. However, there is a development in reporting Inflation statistics as the Treasury is rebasing inflation reporting following adoption of the local currency. As a result Zimstats will defer publication of year-on-year inflation while building up data of prices in mono-currency for a period of 12 months to February 2020.

7.1 Implications of the Supplementary Budget Pronouncement

The supplementary budget in our view failed to restore confidence and build blocks for economic transformation. The following were noted as major contributors to confidence deficit:

(a) Deferring the publication of year–on–year inflation to February 2020, whilst it may sound technically correct on paper that officially the Zimbabwe dollar was introduced on 20 February 2019, practically, the Zimbabwe dollar emerged in November 2016 when the bond notes were introduced and later became more visible in 2017 when the RTGS balance increase. In 2018 the RTGS balances explored to the extent that there is no individual who withdrew USDs from the banks. The pricing regimes which ensued as evidenced was based on replacement costing as economic agents fought to restore value against souring exchange rate between the RTGS and the USD.

This is the practical situation which was observed in the entire 2018. It is therefore not correct to say because Government officially introduced the Zimbabwe dollars in February 2019, prior to that period the economy was priced in USD.

The fundamental problem which arises from postponing the publication of inflation is that it sends a clear message that Government has failed to rein in inflation and economic agents who works with reality on the ground will factor in risks associated with inflation much to the disadvantage of the economy.

(b) Funding of the supplementary budget, the budget shows that for the first half of the year Government collected $5 billion but anticipate to raise $9 billion in the last half of the year. The question which arises here how a country can collect revenue which is almost double what it received in the first half of the year. There are two fundamental problems which may arise from this.

First, there are possibilities that the country will fail to double its revenue collection in the next six months thereby plunging the country into excessive budget deficits. Second, if the country managed to collect the targeted $9 billion the only sound economic explanation is that it would have been aided by inflationary pressures – inflation gains which is again bad news to the economy.

(c) There was no significant financial support given to the energy sector considering that the tariffs rates were only raised to about USc4.5 which is far below optimal rates of USc12 per kwh. This therefore means that there is no end to load-shedding.

(d) The budget failed to tackle salary erosion for the civil servants as the additional supplementary budget of $800 million divided by a total of 550,000 civil servants the cushioning allowance to $145 per individual for the entire six months which is a drop in the ocean.

(e) The budget was shy to give tax breaks such as waiver of corporate taxes for companies which are substituting imports, for example, for corporates supporting outgrowers schemes and contract farming. The minister was silent in pushing for the operationalisation of the commodities exchange which have been proven as an effective instrument in enhancing agricultural productivity.

In view of the above, there are serious doubts on whether Government will be able to preserve the value of the Zimbabwe dollar.

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Market was moving towards re-dollarisation

THE Guest Economist Column represents an effort by Africa Economic Development Strategies (AEDS) and the Daily News to create a platform for top economists to respond to issues pertinent to their areas. In this issue, Executive Director of AEDS Gift Mugano (GM) sat down with the Brains Muchemwa (BM), an expert in macroeconomics, to hear his views on the introduction of the new currency.

GM: What is your comment on the introduction of the new currency? Was the environment ripe for the introduction of the Zimbabwe dollar?

BM: From a technical perspective, Zimbabwe dollar emerged sometime in 2015 when the disparities between the domestic deposits on the real time gross settlement (RTGS) platform and nostro balances had widened significantly. By December of 2015, less than US$500 million in nostro deposits were supporting about $5.6 billion in domestic deposits, itself a clear testament of the fact that by then, the domestic economy had already started using a local currency.

"The market was moving towards re-dollarisation as companies were moving to protect their working and fixed capital in the face of rising inflation and market exchange rate on a free fall.

Resultantly, corporates began facing difficulties in accessing foreign exchange for their import requirements even though they had RTGS balances.

When the Reserve Bank of Zimbabwe (RBZ) eventually introduced the bond notes in 2016 under the guise of export incentives, the real motive was to monetise the ballooning RTGS balances that were no longer being supported by underlying nostro balances.

In my opinion, the official acknowledgement of the existence of the Zimbabwe dollar came on February 22, 2019 when the RBZ liberalised the foreign exchange rate market and introduced the RTGS dollar.

Hence, from this perspective, the significant change which was brought in by Statutory Instrument 142 of 2019 was the banning of the multiple currency regime not the introduction of the new currency since we have had one as late back as 2015.

GM: What then was the rationale of introducing the new currency or rather disbanding the multiple currency regime?

BM: As explained by the minister of Finance and Economic Development in his media brief, the rationale of introducing the new currency or banning the multiple currency regime was largely on the need to attend to pressures emanating from socio-political challenges.

The market was moving towards re-dollarisation as companies were moving to protect their working and fixed capital in the face of rising inflation and market exchange rate on a free fall.

Unfortunately, the generality of the people didn't have the foreign exchange required and this created serious policy discomfort with political implications, prompting the government to intervene expeditiously.

GM: The RBZ has assumed the $1.2 billion debt which is part of the legacy debt from private sector with international creditors. What is your reaction to this move from two angles: (1) Its impact on exchange rate and (2) Cost benefit analysis of such move considering the fact that the country has a debt overhang.

BM: The market has about RTGS$2 billion

Brains Muchemwa

in transactional deposits or high-powered money. The potential to sterilise, in the medium term, about US$1.2 billion of this money, will significantly reduce excessive liquidity in the market, something that has not happened since 2009. This will exert serious downward pressure on exchange rate and inflation.

From a cost benefit analysis, it looks to me that it was an imprudent move for the government, through the RBZ, to assume this private sector debt at 1:1 The Second Republic is driving an agenda of a market-based economy, and such debt assumption schemes fly in the face of fiscal prudence.

The US$2.3 billion RBZ debt assumption in 2015 triggered, among other debt assumption schemes for parastatals and fiscal excesses, an avalanche of TBs that eventually had to be monetised through introduction of Bond Notes in 2016. And we can easily trace the current inflation upheavals and exchange rate depreciation to such activities that resulted in the disproportionate injection of unproductive money in the economy.

This time around, this debt assumption presents similar challenges for the future. Because this is foreign debt, it presents huge foreign exchange risks and at the current interbank rate at around 1:8 it implies that the government will need to fork out over Zw$9.6billion to subsidise it. And as the rate moves, so would be the obligation. Therefore, the consolidated revenue fund of the government will need to generate a surplus of this equivalent to extinguish the debt assumption scheme.

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Market was moving towards re-dollarisation

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Alternatively, our esteemed exporters, who are the generators of foreign currency, will be arm-twisted or expropriated to pay off this debt, thereby draining our foreign exchange earnings and putting pressure on our exchange rate.

Recall for many years, the same exporters suffered unjust implicit taxation when they had to surrender part of their export proceeds at 1:1 to the RBZ when it had become so clear that the market exchange rate was way above the 1:1. Whichever way this is going to be financed, either through inflation or higher taxation, it's an imprudent move whose ultimate impact will impose an unfair burden on ordinary citizens who are now carrying the burden of private companies as if they were the shareholders .

GM: What is your take on the interest rate hike where the RBZ has raised the overnight accommodation interest rates to 50 percent per annum for banks?

BM: This was a good move. The high inflation and low interest rate environment reinforces speculative behaviour on the equities and foreign currency markets. The banks should wherefore be following suit by raising their minimum lending rates. This will promote some allocative efficiencies in the use of money in the economy away from speculation.

However, it is important to note that the interest rates at 50 percent per annum, even if compounded daily, are quite low and yield negative real interest rates. The ideal case is that interest rates should be above inflation rate.

GM: What is the impact of the interest rate hikes to households and companies who are holding onto loans they borrowed for either consumptive and productive purposes and even the proposal to hike the rates further?

GM: The looming hike in lending rates will squeeze margins for corporates and shave off disposable incomes for households. The resulting effect would be to cool-off the economy, a measure desperately needed to stabilise the economy.

GM: What has been the market response so far (from exchange rate, prices and availability of goods)

BM: The exchange rate on the parallel market, which was on a free fall prior to the banning of the multiple currency regime has stabilised and started to appreciate whilst bearish trends have begun in earnest the Zimbabwe Stock Exchange. In general, investors are beginning to rebalance their portfolios in anticipation of forthcoming tight market liquidity conditions.

GM: What further measures must be put in place by Government to make this new currency work – to give a better outlook?

BM: In light of the prevailing high inflation and foreign currency shortages, fiscal prudence and aggressive mopping of excess liquidity by the RBZ should be the priority policy issues to anchor the currency stability and achieve price stability.

The RBZ would need to consider more costless interventions to drain the market liquidity swamp.

And raising the reserve requirements for banks to around 8 percent will be able to achieve that.

On the other hand, the government more than anyone, should demonstrate faith in the new currency by outlawing the charging of customs duty in foreign currency by Zimra on certain imported goods.

The continued charging of customs duty in foreign currency exposes the lack of government trust in its own currency and that is a fundamental deficiency in building consensus around acceptability of the new currency.

GM: How do you see the outlook

BM: As long as minister Mthuli continues to get the support he is getting from the President in terms of reforming our fiscal DNA, with the RBZ getting to focus on it's core mandate in monetary policy, the economy should stabilise in the medium term.

The ensuing stability should promote and attract domestic investment, create jobs and grow incomes at a time the real wages have been pulverised by inflation.

While its commendable that the government has been running a surplus, it becomes important for the minister of Finance to ensure that the consolidated government finances, inclusive of parastatals, should be in surplus in order to avoid the perennial debt assumption schemes for parastatals that are a source of inflation.

"Alternatively, our esteemed exporters, who are the generators of foreign currency, will be arm-twisted or expropriated to pay off this debt, thereby draining our foreign exchange earnings and putting pressure on our exchange rate.

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