

MONTHLY ECONOMIC BRIEF

January 2020



Highlights

- **Monetary Policy Committee targeting single digit inflation by end of Q1'2020.**
- **Banking sector deposits closed December 2019 at ZWL\$34.5 billion.**
- **National tax collections increased by 358% in 2019, exceeding target by 24%.**
- **Imports shrunk by 31% in 2019, narrowing the trade deficit by 80%.**
- **December 2019 poverty datum line increased by 14.5% to ZWL\$4188 per household of five.**
- **ZSE market capitalization advanced 41.5% to ZWL\$41.146 billion in December 2019.**

Work in progress...

January 2020 Monetary Policy Committee (MPC) resolutions subsumed the 2020 Monetary Policy Statement. The overnight lending rate was maintained at 35% while commercial bank minimum capital requirements were set to a range of US\$20 mln to US\$30 mln (increasing with bank size); with effect from 31 December 2020. The MPC noted that inflation is stabilizing. Resultantly, the committee is targeting single digit inflation by the end of Q1'2020 and full-year inflation below 50%.

Since the introduction of a new currency in November 2019, the Central Bank has injected about ZWL\$130 mln in notes into the market. An additional ZWL\$500 mln is set to be injected 'sparingly' in the first half of 2020.

High increase in Money supply

According to the latest MPC statement, banking sector deposits were ZWL\$34.5 bln in December 2019. This indicates a high growth in money supply given that in September total money supply was equal to ZWL\$23.6bn. On a constant currency basis, M3 increased by 43.3% from the beginning of the year to September 2019; compared to 25.6% in the corresponding period of 2018. Bond notes and coin amounted to ZWL\$816 mln or 3.5% of M3

2019 taxes exceeded target by 24%

National tax revenue collections for 2019 closed at ZWL\$23.19 bln - up 358% from the prior year and 24% ahead of target. Main contributions by revenue heads were Value Added Tax (24%), Pay As You Earn (15%) and corporate tax (14%). Consequently, taxes from direct formal economic activity (corporate taxes and PAYE) contributed a combined 29%, with the balance coming from indirect taxes such as VAT and IMTT (11%). The contribution of indirect taxes (71%) is a crude indicator of the economy's informality.

The tax to GDP ratio closed 2019 around 18%, indicating a high level of informalization of the economy and poor economic performance, and therefore lower direct tax collection. The rule of thumb prescription is between 25% and 50% and South Africa has a tax to GDP ratio of 26%. Meeting the 2020 tax target of ZWL\$58 bln might require widening the tax base or enhancing collections.

2019 trade deficit narrowed 80%

Zimbabwe's trade deficit closed 2019 at US\$548 mln; 80% lower than in the prior year (US\$2.7 bln). Exports were unchanged from the prior year at US\$4.3 bln, while imports registered a 31% decline from US\$7 bln to US\$4.8 bln. Fuel and electricity imports both registered declines of 20% in 2019, while pharmaceutical imports closed 6% lower. The noteworthy decline in critical imports is primarily as a result of foreign currency scarcity. Sustainable narrowing or reversal of the trade deficit will likely hinge on significant export growth.

House of five PDL closed 2019 at ZWL\$4188

The monthly poverty datum line for five increased by 14.5% to ZWL\$4,188.42 in December 2019. Consumer inflation over the same period was 16.6%. Annual inflation (pre-ZWL\$ base) closed 2019 at 521.2%, up from 42.1% in 2018. Food inflation (31% contribution to the overall basket) was 719%, while housing, water, electricity, gas and other fuels (28%) closed at 269%.

Government reportedly awarded public workers a salary adjustment ranging from 133% to 172%. The adjustment will be implemented in February 2020, backdated to 1 January 2020 with the



MONTHLY ECONOMIC BRIEF

January 2020



January portion spread over three months. Another review is expected in April 2020. The adjustment is envisioned to mitigate wage erosion pressures. The concomitant macro-economic risk is a wage-price spiral and a longer than earlier envisioned 'transitional and stabilization phase'.

US\$ on the front foot

The United States Dollar (US\$) underlined its safe-haven status, registering strong gains as investors sought to park capital while assessing the full impact of wide-spread global vulnerability. The outbreak of 'coronavirus' in the world's second largest economy by GDP (China), spooked investors, weighing heavily on global trade and investment flows. The dollar's strength was further aided by a relatively strong manufacturing outturn in the United States.

The US\$ closed the month ended 31 January 2020 4.7% firmer against the South African Rand (ZAR), to close at ZAR14.71 per US\$. Against the Euro, the US\$ advanced 1.6% to close at US\$1.10 per Euro. Keeping in trend, Zimbabwe's ZWL\$ shed 3.3% against the US\$, closing the month under review at ZWL\$17.35 per dollar.

Chinese woes weighed on commodities

Commodity prices struggled for direction as highlighted in the following table.

| Commodity | Price | Jan'20 | YTD'20 |
|----------------------|-----------|---------|---------|
| Nickel (usd/ton) | 12 530.00 | -11.88% | -11.88% |
| Crude Oil (usd/bbl) | 58.4400 | -12.46% | -12.46% |
| Gold (usd/oz) | 1 579.04 | 3.69% | 3.69% |
| Platinum (usd/oz) | 959.30 | -1.04% | -1.04% |
| Coffee (usc/lb) | 100.75 | -23.65% | -23.65% |
| Maize (usd/ton) | 149.30 | -1.94% | -1.94% |
| Wheat (usd/ton) | 560.25 | 0.58% | 0.58% |
| Sugar (usc/lb) | 14.66 | 8.43% | 8.43% |
| Cotton lint (usc/lb) | 68.48 | -1.68% | -1.68% |

The impact of output disruptions in China is in-part captured by a dip in oil and base metals. Chinese oil imports declined 20%, yielding the biggest global demand shock since the 2008/9 global financial crisis. China also accounts for about 50% of global base metal consumption.

Local equities advanced...

Domestic equities were bullish during the month ended 31 January 2020 on the back of suspected growth in money supply, with the total market capitalization closing at ZWL\$42.146 bln as highlighted below.

| Sector/Index | Value | Jan'20 | YTD'20 |
|---------------------|--------|--------|--------|
| Old Industrial | 1112.3 | 45.1% | 45.1% |
| Top 10 | 313.3 | 54.6% | 54.6% |
| All Share | 332.9 | 44.7% | 44.7% |
| Market Cap (ZWL bn) | 42.146 | 41.5% | 41.5% |

The following tables highlight the ZSE top and bottom performing stocks for January 2020. Only two stocks registered losses at the close of the month under review.

| Top 3 | Price ZWLc | Jan'20 | YTD'20 |
|-----------|------------|---------|---------|
| ZIMPAPERS | 32.00 | 138.81% | 138.81% |
| OK | 113.48 | 105.43% | 105.43% |
| ZIMPLOW | 110.23 | 82.20% | 82.20% |

| Bottom 3 | Price ZWLc | Jan'20 | YTD'20 |
|----------|------------|--------|--------|
| ART | 12.30 | -5.38% | -5.38% |
| RIOZIM | 232.00 | -1.11% | -1.11% |
| - | - | - | - |

Monthly trades gained 59.6% to an all-time peak at ZWL\$305 mln in January 2020. Daily trades averaged ZWL\$13.9 mln, up 37.9%. Foreign investors registered the biggest monthly net sell off on record, at ZWL\$60 mln. Locals dominated trades at 84%, ostensibly underpinning the inflation hedge attractiveness of equities.

Economic Outlook

Political-economy policy inertia dominates the outlook. Monetary policy, in particular; maintains a 'work-in-progress stance,' sustaining associated risks around exchange rate and inflation stability. Further monetary policy concerns are premised on inescapable fiscal pressures, such as public wage-increase demands. Overall, monetary policy remains the most significant risk over the foreseeable outlook.

Disclaimer The general opinions and views contained in this report are subject to change without notice. This report is distributed for informational purposes only and not intended as an offer or solicitation for the purchase or sale of any financial instrument and should not be considered as investment advice or a recommendation of any particular security, strategy or investment product. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. No part of this report may be reproduced in any form, or referred to in any other publication, without express written permission of Old Mutual Investment Group Zimbabwe (Private) Limited.

