DEALING WITH EXPORT COMMODITY PRICE SHOCKS: THE ZIMBABWE EXPERIENCE

Presentation By

W. L. Manungo

Secretary for Finance, Zimbabwe

Outline

- Introduction
- Structure of the Zimbabwean Economy
- Impact of Commodity Prices Shocks on Exports and GDP
- Lessons for Developing Countries
- Conclusion

Introduction

- Commodity price volatility / shocks may have either detrimental / positive effects on public finances as well as overall economic performance.
- Price booms for certain commodities such as oil for oil producing countries are a windfall, which can support /assist quick growth and development, while this has negative impact to non oil producers.
- However, the impact of commodity price volatilities is most felt by developing countries whose economies lack diversification and value addition.

Introduction

- In the last decade to 2008, challenges faced by Zimbabwe in the form of economic decline, high inflation levels, depressed exports and imports, huge BOP deficits, among others were mostly related to policy deficiencies and other challenges.
- During that period, there was less scope for taking advantage of commodity price booms as output was falling in an unstable macroeconomic environment.

Introduction

- However, from 2009, when the economy stabilised following introduction of economic reforms, the impact of changes in commodity prices was much more evident from both the positive and negative perspectives.

Structure of Zimbabwe Economy

The country's GDP and Exports are driven basically by two main sectors:

- Agriculture
- Mining

Structure of Zimbabwe Economy: Major Exports (US$ m)

- Marked improvement in Zimbabwe's major exports:

	2008	2009	2010	2011
AGRICULTURE				
Tobacco	229	300.8	384.2	542.4
Sugar	68.4	48.3	78.1	89.9
Horticulture	32.6	23.7	71.7	77
MINING				
Platinum	475	354.9	700.6	892.5
Gold	93.8	155.2	334.2	626.9
Nickel	77.2	31.1	59	96.8
Diamonds	22.6	31.3	344.4	430.9

Structure of Zimbabwe Economy: Major Sector Contributors to GDP

Sector	2009	2010	2011	2012	2013
Agriculture,	14.8%	17.5%	17.3%	17.6%	19.0%
Mining	8.1%	11.2%	13.0%	13.7%	15.6%
Manufacturing	14.0%	13.9%	13.2%	12.7%	12.8%
Transport and Communication	14.5%	12.9%	12.4%	12.0%	11.3%

Impact of Commodity Prices Changes on The Economy

- The recent firming of tobacco and to some extent cotton prices had positive impact on Zimbabwe's liquidity position and the agriculture sector.
- Similarly, robust prices for gold, platinum and diamonds had positive impact on the economy.
- Both agriculture and mining exports were on the rise facilitating improved liquidity and growth.

Impact of Commodity Prices Changes on The Economy: Major Sector Contributors to GDP

- Consistent with sector contributions, agriculture and mining have also been growing faster than other sectors as indicated below:

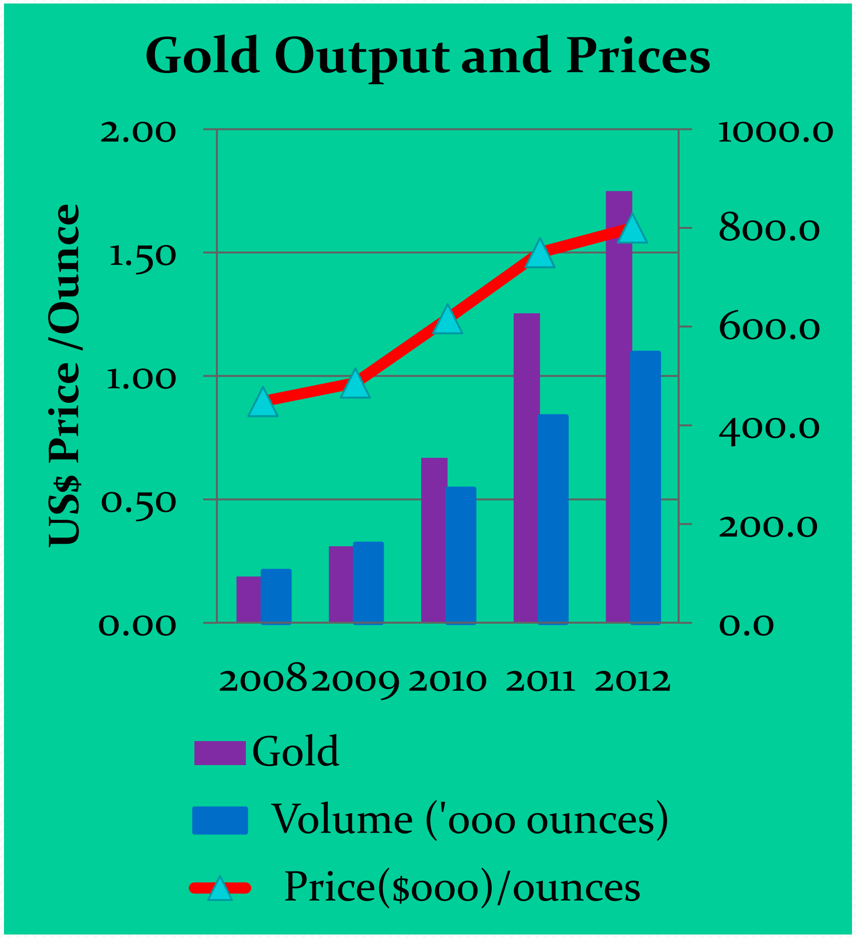
	2008	**2009**	**2010**	**2011**
Agriculture	-39.3%	21.0%	35.6%	7.4%
Mining	-33.4%	33.3%	60.2%	25.8%
Manufacturing	-17.1%	10.0%	13.8%	3.5%
Transport and Communication	5.4%	2.2%	2.0%	5.5%
GDP at market prices	**-14.8%**	**5.4%**	**8.1%**	**9.3%**

Impact of Commodity Prices Changes on The Economy

- On the other hand, high energy and food prices translated into high imports, and consequently unsustainable trade and current account deficits.

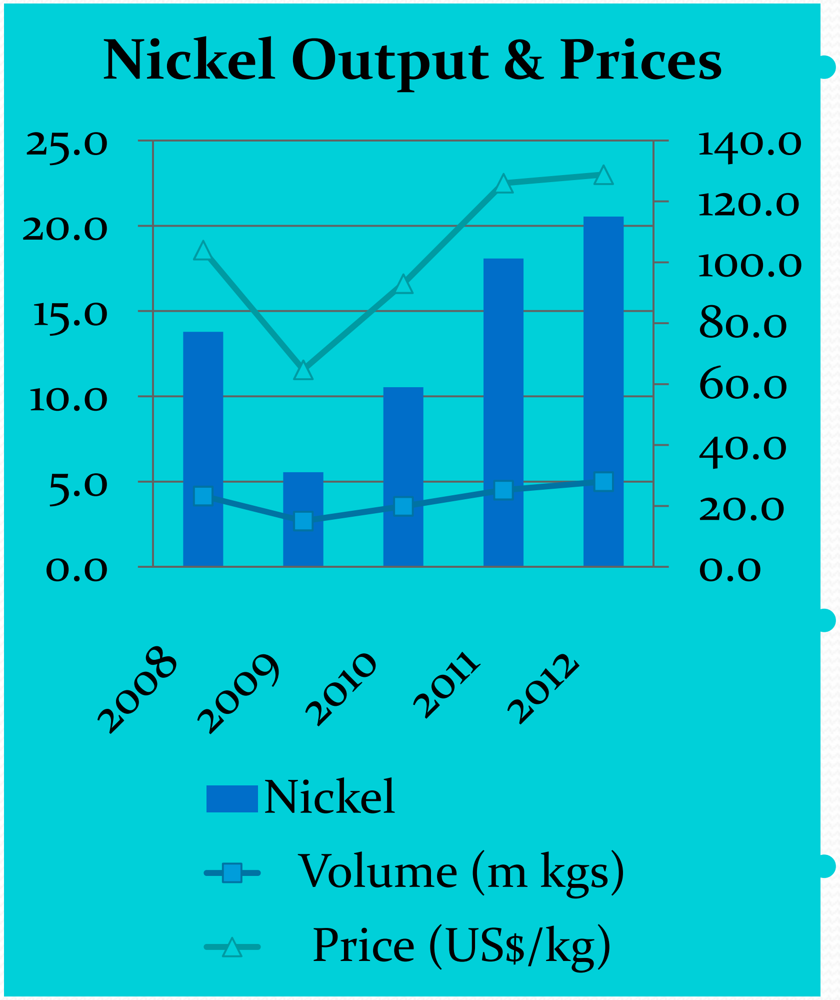
Major Imports (US$ m)	2009	2010	2011	2012
Fuel	568.2	945.4	1047.5	1080.5
Food	741.2	554.0	462.5	318.6

Impact of Commodity Prices Changes on The Economy



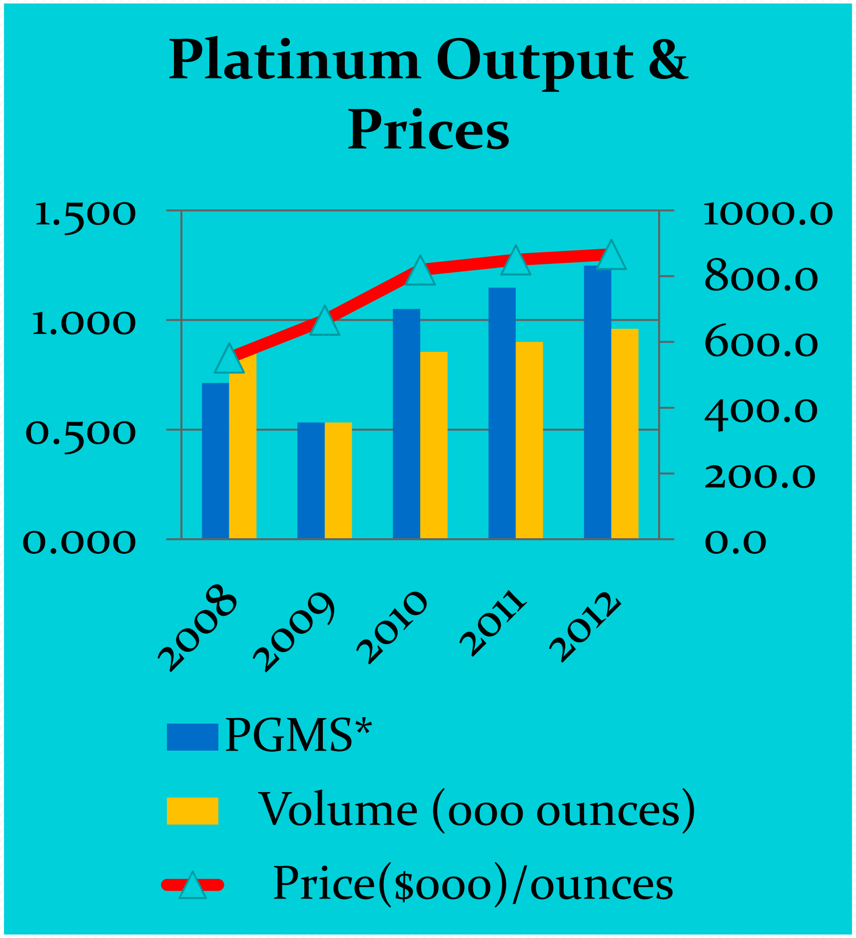
- In 2008 and 2009, gold prices were moderately improving and reflected in moderate exports value
- However, from 2010, there were huge increases in gold prices translating into large export value windfalls and also improved gold production

Impact of Commodity Prices Changes on The Economy



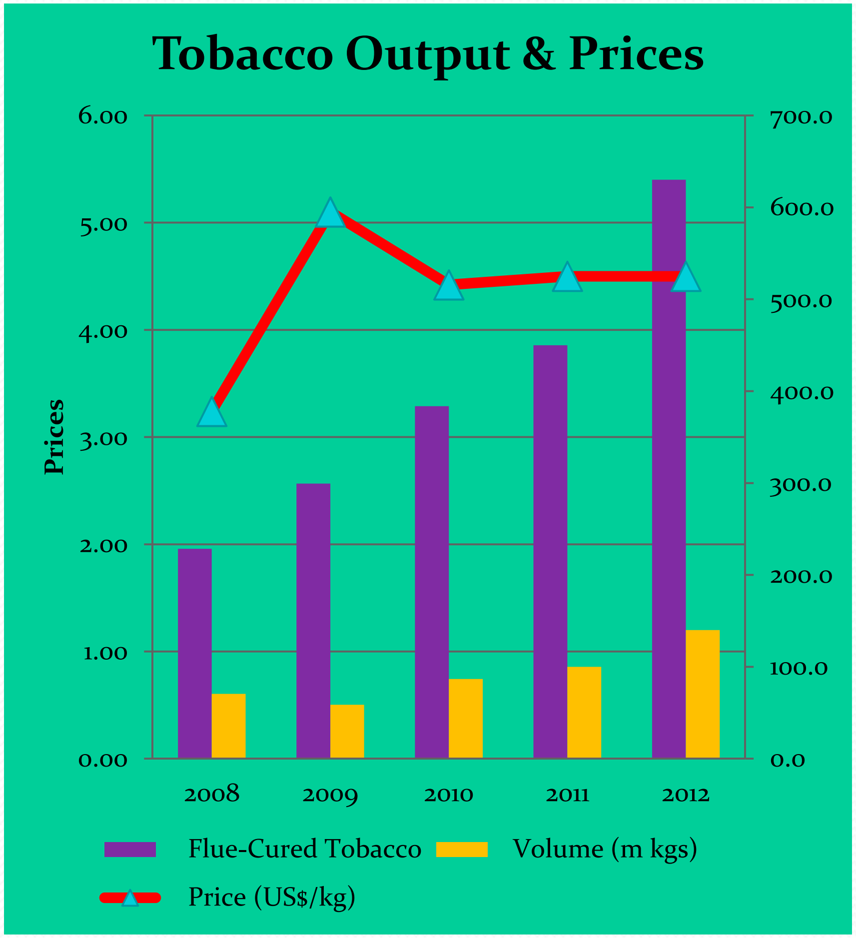
- The significant drop in nickel prices between 2008 and 2009 resulted in the closure of the country's biggest nickel producer (BNC), which has not yet resumed production due to high capital outlay.
- Closure of BNC is translating into a loss of potential earnings of about US$100 million per year.
- The only nickel is a bye product of platinum

Impact of Commodity Prices Changes on The Economy



- This trend is similar to the other mineral commodities

Impact of Commodity Prices Changes on The Economy



- Similarly, the fluctuation in tobacco prices had little impact on production, largely due to Government support, particularly on small scale tobacco growers resulting in increased hectrage

Impact of Commodity Prices Changes on The Economy

- Overally, the drop in international commodity prices resulted in import compression due to reduced foreign currency earnings.
- This, particularly in 2008, resulted in shortage of fuel, raw materials
- The boom in commodity prices being experienced is supporting sustainability of the multiple currency regime and hence attributable to the prevailing macroeconomic environment

Impact of Commodity Prices Changes on The Economy

- Imports are increasing much faster than exports leading to trade and current account deficits.

	2008	2009	2010	2011
Current Account (US$ million)	-775.3	-1140.3	-1852.5	-1887.0
Trade Balance (US$ million)	-969.1	-1599.8	-1781.7	-1966.1
Exports	1660.4	1613.3	3380.1	4399.3
Imports	2629.5	3213.1	5161.8	6365.4

Lessons for Developing Countries

1. **Need for Value addition**
   - The established trend indicates that prices of value added products are more stable than prices of commodities.
   - Value addition also gives scope for employment generation, increased contribution to the fiscus and improved GDP.
   - However, value addition requires technology and capital investment
   - Regional integration agenda provides more scope for promoting value addition in view of the need for a bigger market to sustain some operations

Lessons for Developing Countries

2. **Diversification of export and product markets**

- Diversification should also be pursued to avoid overreliance on a few commodity exports and markets, that way creating scope for developing countries to reduce the impact of shocks.

Lessons for Developing Countries

3. **Building Reserves**

- Cushioning the poor and the economy from unexpected shocks require the strengthening of social safety nets and building of reserves respectively, all of which require exercising prudent fiscal discipline.
- These reserves should provide a buffer necessary for smoothening economic activity during period of negative shocks

Lessons for Developing Countries

4. Dealing with the Dutch disease

- The commodity price boom is normally associated with the appreciation of the domestic currency, making imports cheaper. In most cases, the imports products are highly consumptive and not supportive of sustainable economic growth.
- Government policy interventions, is therefore, critical to redirect importation priorities towards raw materials, capital, plant and machinery to increase country investment

Lessons for Developing Countries

5. **Sovereign Funds**

- During booming periods, building of sovereign funds to develop local communities, that way insuring them against impact of negative price volatilities and depletion of non renewable resources

Lessons for Developing Countries

6. **Macroeconomic stability**

- Strengthening macroeconomic fundamentals is key imperator for enhancing resilience of an economy against external shocks.

Conclusion

Value addition and Diversification remain critical factors for containing negative commodity price shocks.

I Thank You