IMF team to jet in for SMP review

KUDZAI KUWAZA

A TEAM of International Monetary Fund (IMF) officials will arrive in Zimbabwe in the next two weeks for the first review of the Staff-Monitored Programme (SMP), which runs until March next year.

The SMP is an informal arrangement between the government and the IMF to monitor the implementation of key economic programmes it the country.

The review comes at a time when the economic crisis is deepening, characterised by a debilitating liquidity crunch, cash and foreign currency shortages, runaway inflation, low productivity and crippling power shortages, among other problems.

IMF representative to Zimbabwe Patrick Imam told *businessdigest* on Tuesday that the team from the Washington DC-headquartered Bretton Woods institution, which will be in the country from the September 14 to 18, will assess progress made on the SMP for the period between May and June 2019.

"The team will evaluate whether the commitments set by the government for end of June were met. While I cannot prejudge the outcome of these findings, it seems to me that the economic reforms are broadly on track and have continued against a very difficult economic and political background. But let's wait for the outcome of the mission," he said.

Imam said the team will also revise downwards the projected annual GDP growth rate as a result of a number of factors which include the drought and the prolonged power outages.

"The team will also update the economic forecasts. While I do not want to prejudge the findings of the mission, it is clear, compared to the projections of the original SMP, which did not foresee the severity of the drought and its secondary impact, nor the electricity shock, that growth is almost certainly going to be revised downwards and inflation upwards compared to the original SMP forecasts," Imam said. "The original 2019 budget has already been superseded by the supplementary budget that was voted on a few weeks ago, so the review mission will have to recalibrate government spending forecast for year-end accordingly."

IMF representative to Zimbabwe Patrick Imam

He said as a result of the drought, preliminary estimates suggest that agriculture may contract by 15 percentage points compared to 2018.

"Making economic predictions in the current economic environment is very difficult, as the situation is so fluid. However, it's fair to say that the economic outcomes are less favourable than anticipated in the Staff-Monitored Programme when it started in May 2019, this is partly because of the severe weather shock that hit the economy. It is the worst drought in a generation and this had a direct negative effect on the agricultural sector," Imam said. "In addition, you have the indirect effect of the drought on hydro-power generation. With electricity production dipping, all the productive sectors of the economy have been hampered; in particular export pillars like mining, but also manufacturing, for instance, and even tourism. Besides impacting growth, this drought also led to a steep increase in domestic prices, though the primary driver of that was, of course, the rapid currency depreciation we observed late in 2018 and in the past few months."

He pointed out that other factors that increased domestic prices include the gradual reduction of fuel, electricity and other subsidies.

In his mid-term fiscal review earlier this month, Finance minister Mthuli Ncube revealed that the country's GDP growth will be even less than the -2% projected under the SMP.

Insurance sector eyes real estate

CLOUDINE MATOLA

THE insurance sector, which has been hard hit by runaway inflation, is looking to invest in real estate and stocks to hedge against the erosion of insurance policies.

Zimbabwe's inflationary environment is affecting all sectors of the economy and the insurance sector has been hit hard since pensions are losing value for the second time in a decade.

In an interview with the *Zimbabwe Independent*, the Insurance Institute of Zimbabwe (IIZ) president Ushe Mungaraza said investing in real assets will reduce the chances of losing the value of investment in the current inflationary environment.

"Given the current inflationary environment, allowing the industry to invest more in real assets like real estate and stocks will help preserve the value of investments and, in turn, the value for clients," Mungaraza said.

Mungaraza said for insurance companies to remain afloat, they should invest in technology to reduce costs and innovation, citing the example of inflation-linked products that allow the value of sums insured to track inflation.

However, he said there has to be a balance between the liquidity needs of players and role of the industry in participating in funding national projects through prescribed asset ratios.

The situation in the country has seen a drastic reduction in the number of insurance students who sit examinations and attend short continuous professional development courses.

Mungaraza said value was lost upon conversion of asset balances, adding that they are now unable to deliver on United States dollar claims due to the introduction of the Zimbabwean dollar through Statutory Instrument 142 of 2019.

"The introduction of the Zimbabwe dollar was rather sudden and unexpected. Value was lost upon conversion on our asset balances. We have seen expenses growing way more than our revenue as many substances were effectively removed with the introduction of the Zimbabwe dollar," he said.

The introduction of the Zimbabwe dollar as the sole legal tender in the country for all transactions has made it difficult for insurance companies to do business since some of their claims were denominated in the greenback.

"Starting October 2018, our members were writing business in forex. The introduction of the Zimbabwe dollar as the mono-currency meant we cannot deliver our promise in US dollars," Mungaraza said.

He said following the mono-currency regime, they are currently unable to issue travel insurance to locals venturing abroad, as this has to be underwritten by foreign partners, requiring cover and premium payment in forex.

● **See full interview on Page 12.**

Mixed fortunes for Dawn Properties

MELODY CHIKONO

DAWN Properties says it has experienced mixed results, with foreign currency earnings from hotels cushioning it against the downturn in the market, but the company has been affected by increasing rentals.

Dawn Properties is involved in real estate investment, development and consulting in Zimbabwe.

Dawn MD Patrick Matute told *businessdigest* on the sidelines of the Marlborough Sunset Views ground-breaking ceremony on Tuesday he was hoping to see demand increase on the back of existing properties, which will push vacancies and reduce defaults.

Matute said Dawn's long-term prospects are in value preservation, thus the strengthening of its thrust in property development. The property development projects will see Dawn developing stands and building houses. Dawn Properties on Tuesday launched a ZW$200 million housing development at its Marlborough Sunset Views in Harare.

"It has been challenging but we have been blessed that part of our income from our hotel property is in forex. So that portion is obviously translated at interbank so that sort of cushions us against the downturn in the market," Matute said. "But you know on the consulting side we have had pains, increasing rent is not always an easy thing but we are making progress. We must do it (consultancy) on behalf of our other clients that we manage their properties for. So it has been a mixed bag. Overall, we are positive.

"Our long-term prospects value is that we are now focussing on property development, developing stands, building houses. Either way, people will still need somewhere to live in the long term so we don't think we will ever go wrong with property development," he said.

In the short to medium term, Matute said he expected challenges and headwinds, but the company is still positive on the long-term prospects despite the challenging macroeconomic environment. "We have few projects in the pipeline, but I think for us we are mainly focussing on this one. We still have land banks in Mandara and Borrowdale. But this one will be the first. It will probably take us about a year-and-a-half to fully finish and then we will go on to the next project in the pipeline. In terms of occupancies and rental defaults, we see ourselves faring well," he said.

"I think our long-term strategies will determine if we can retain our long-term tenants and find a mechanism for them to be able to be sustainable yet also paying rentals. We have been responsible as we are just pegging rates and linking them to inflation. Collection rates are around 90%. Our vacancies factor about 16%."