

# Regional Economic Outlook and Zimbabwe's Economic Challenges

Christian Beddies, IMF Resident Representative

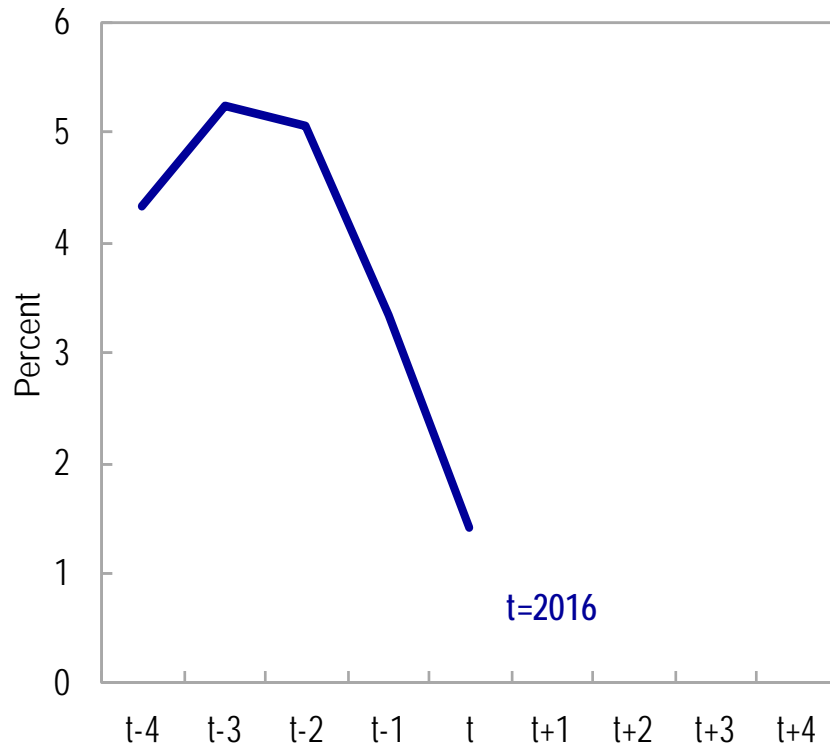
MEx Forum

*December 13, 2016*

*Harare*

# The deceleration in growth is acute,

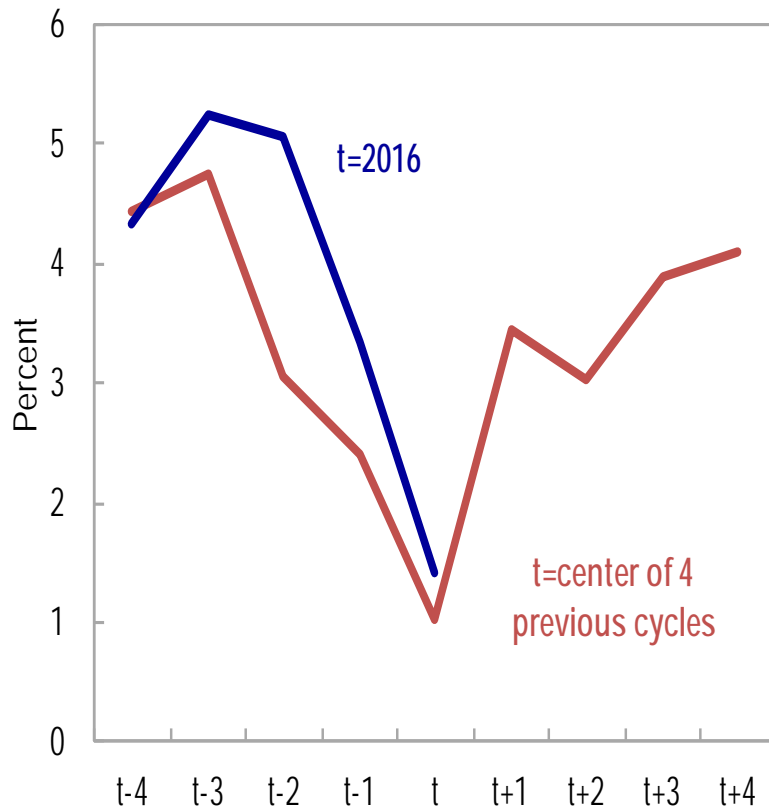
Real GDP Growth: 2016



- 2010 – 14 : **5.3 %**
- 2015 : **3.4 %**
- 2016 : **1.4 %**

# reminiscent of past sharp slowdowns,

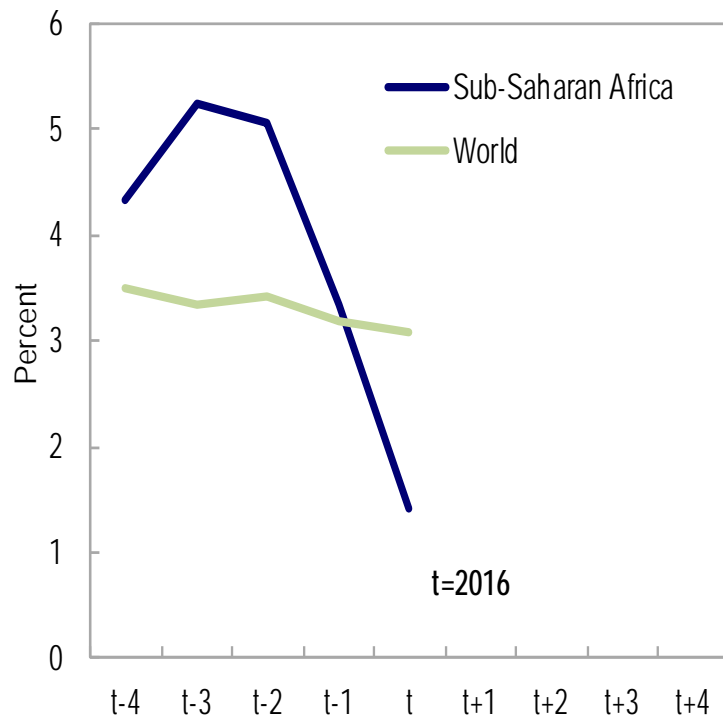
**Real GDP Growth:  
2016 vs Past Slowdowns**



Previous episodes:  
1977, 1983, 1992, 2009

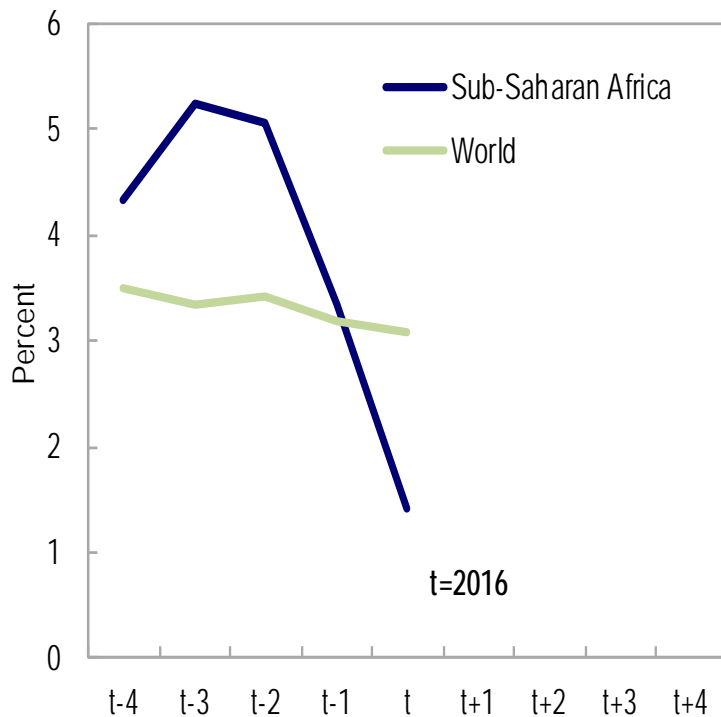
# asynchronous with global growth,

## Real GDP Growth: Current Slowdown

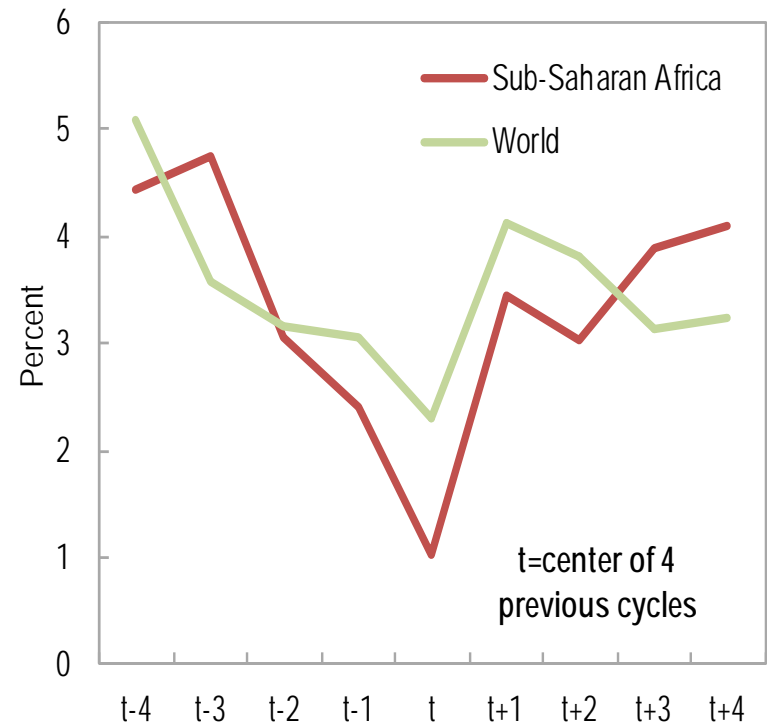


# asynchronous with global growth,

## Real GDP Growth: Current Slowdown

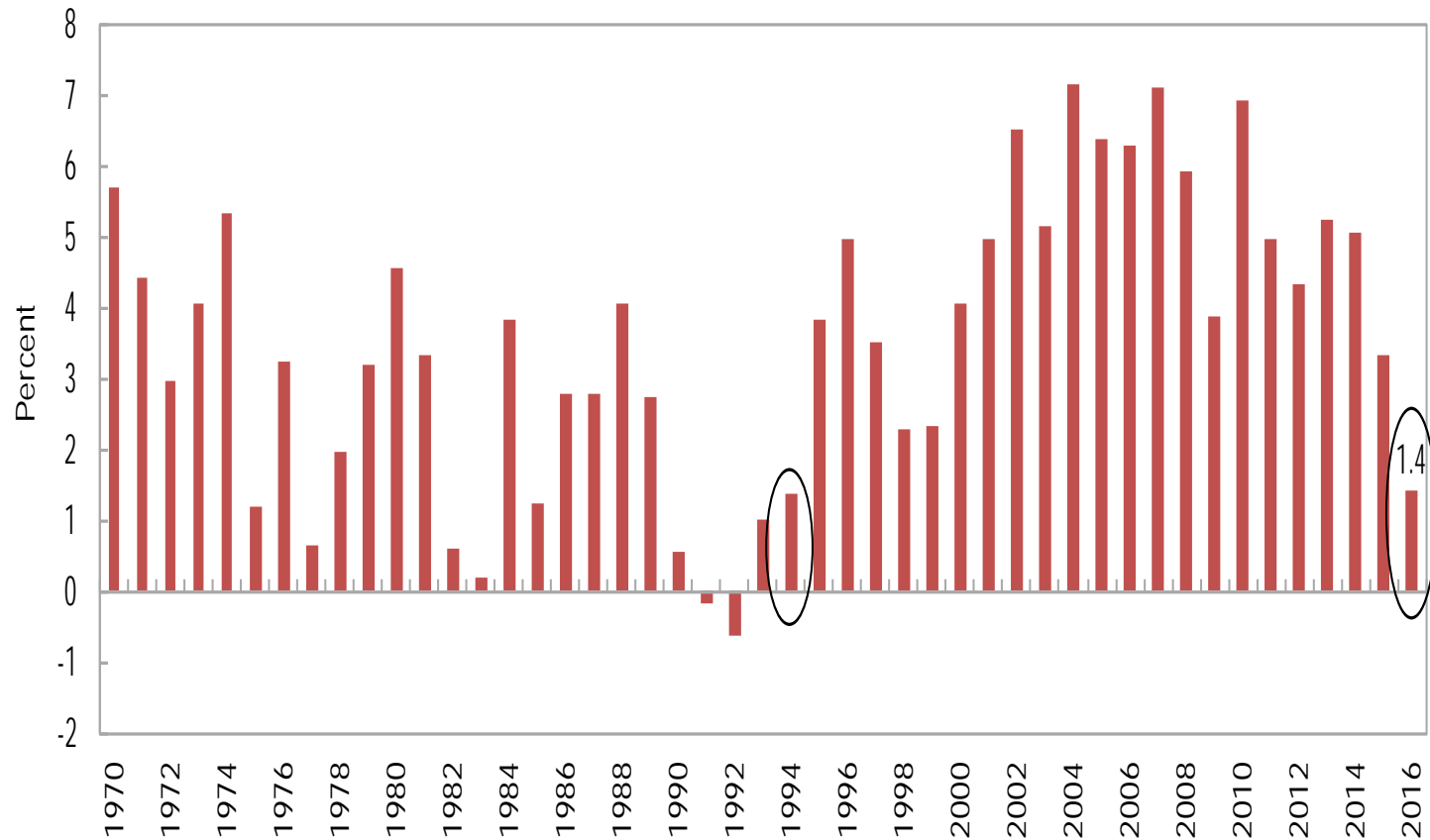


## Real GDP Growth: Past Slowdowns



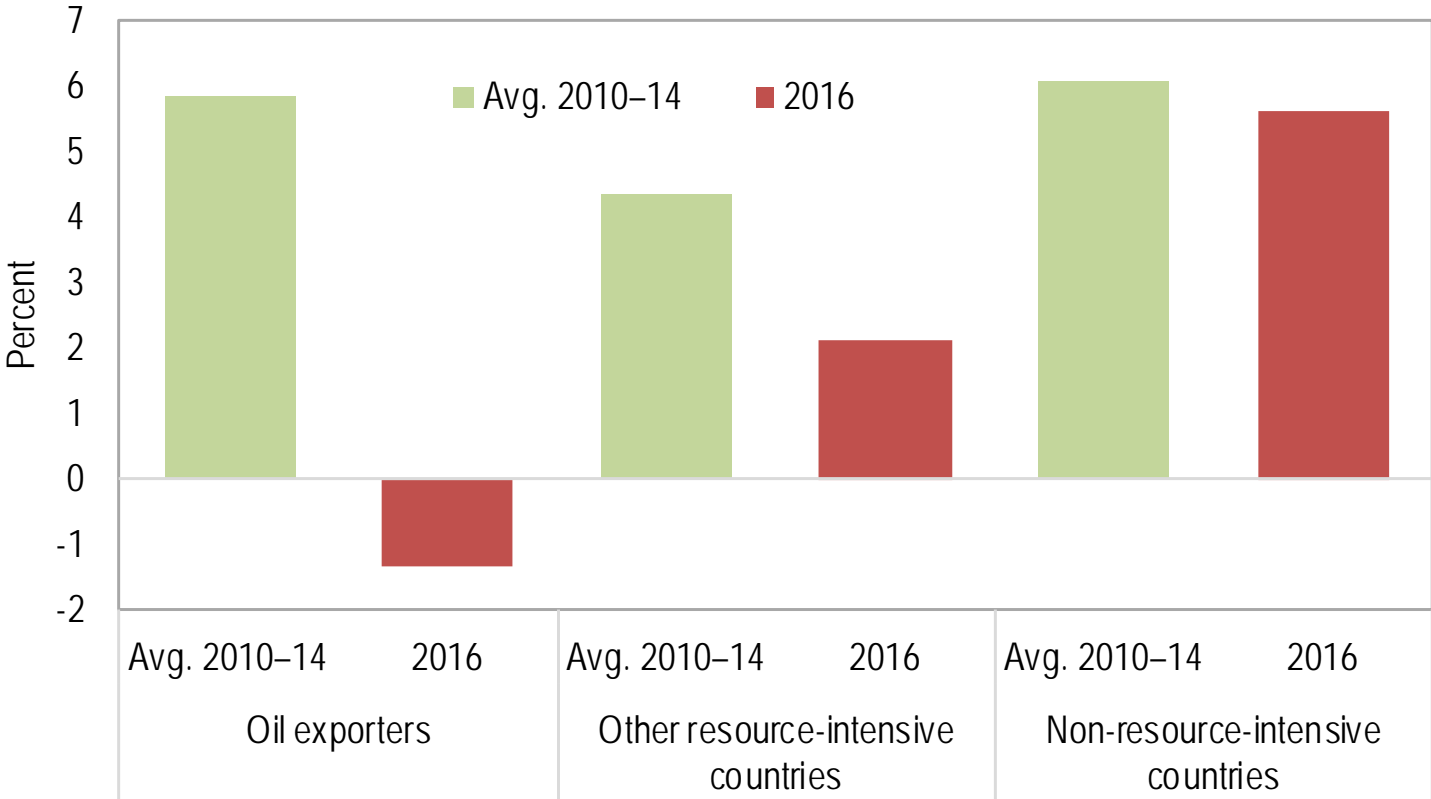
and implies the lowest expansion since 1994.

Real GDP Growth, 1970–2016



# But, more than ever, the heterogeneity of growth outcomes is quite striking,

### Real GDP Growth, 2010-16



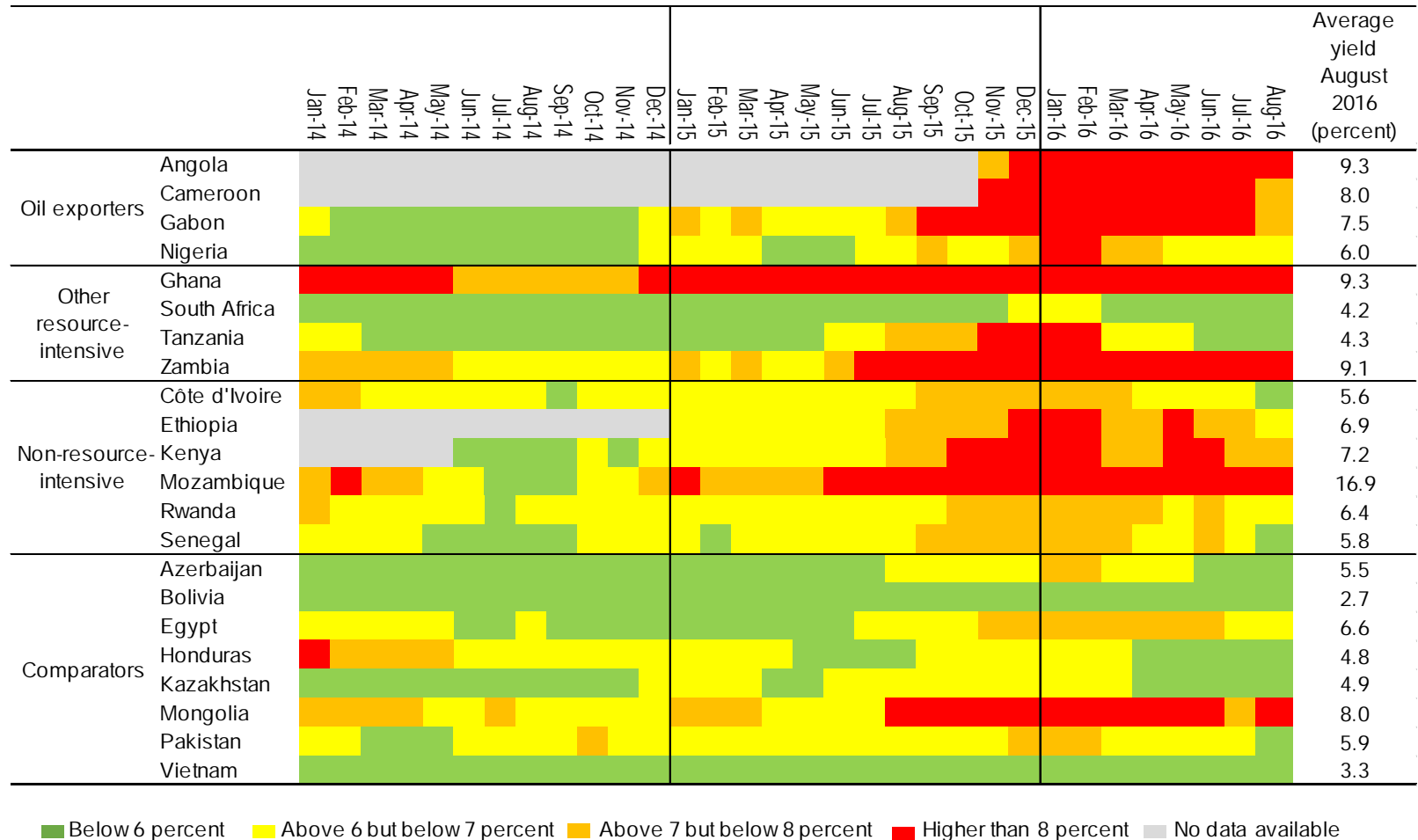
# Four reasons underpin this sharp slowdown:

- Continued drag from depressed commodity prices
- Tighter financing conditions
- Compounded by the delayed policy response
- Other country specific factors also, including drought and political unrest



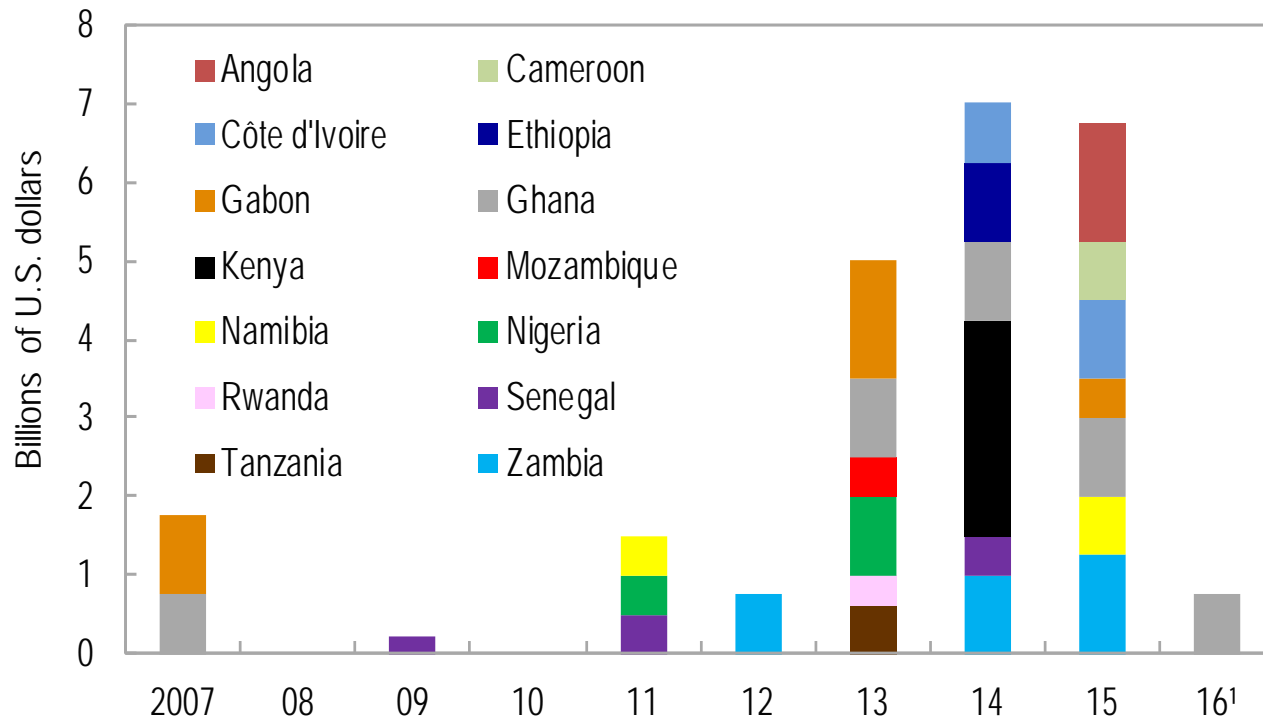
# financing conditions have tightened,

## SSA Frontier Markets in Context: Eurobond Yields, 2014-16



resulting in reduced market access for the region.

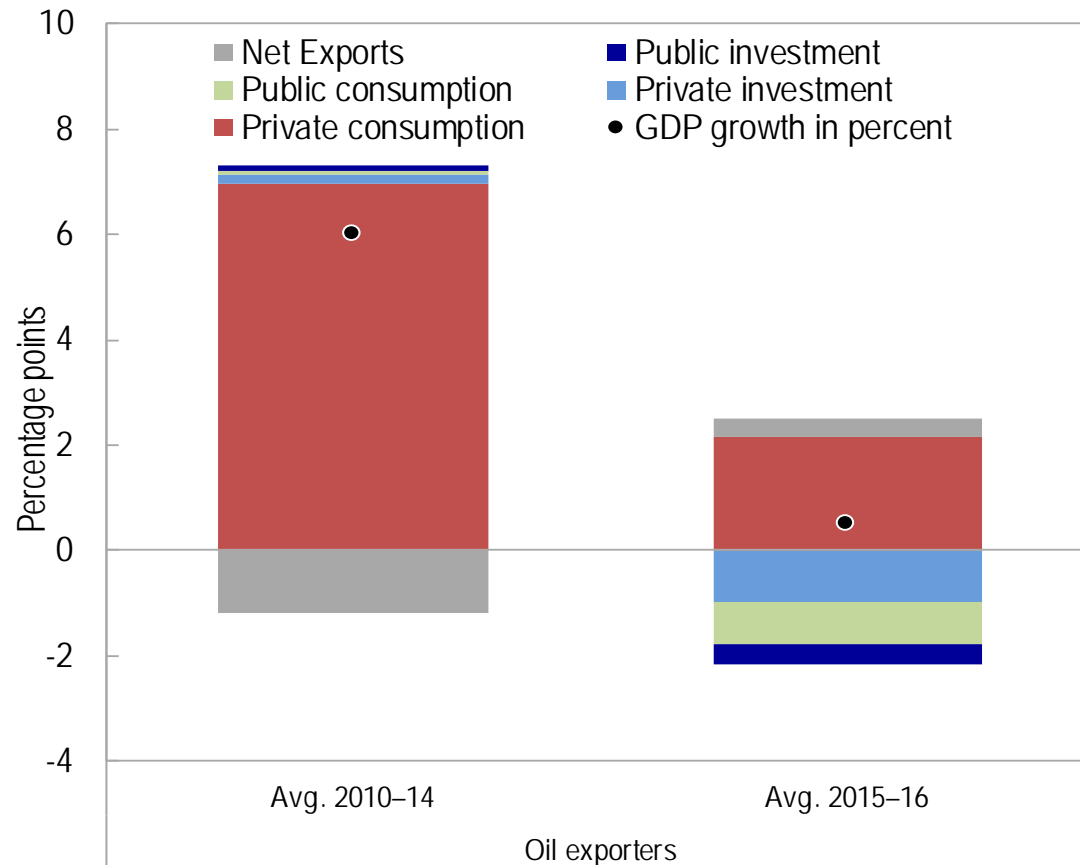
### International Sovereign Bond Issuances



<sup>1</sup> Up to mid-September 2016.

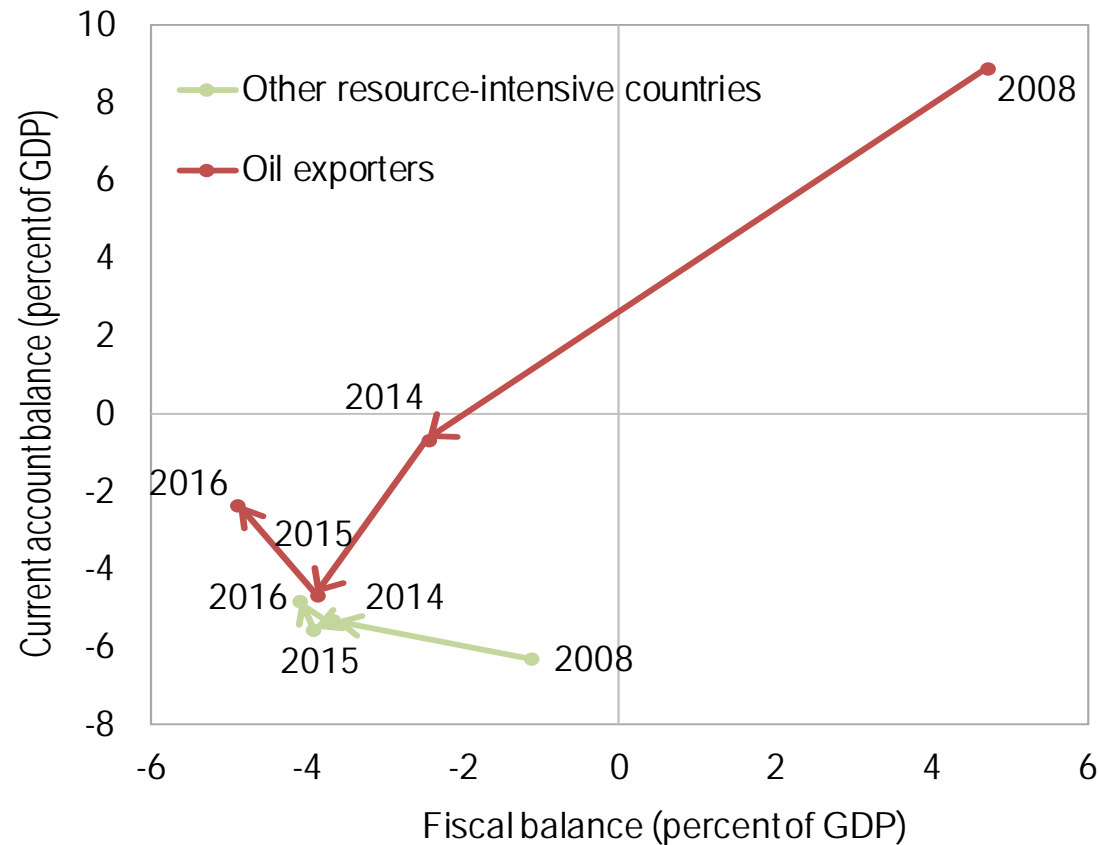
# The pain from the collapse in commodity earnings is spreading,

## Oil Exporters: Contribution to Growth by Sources of Demand, 2010-16



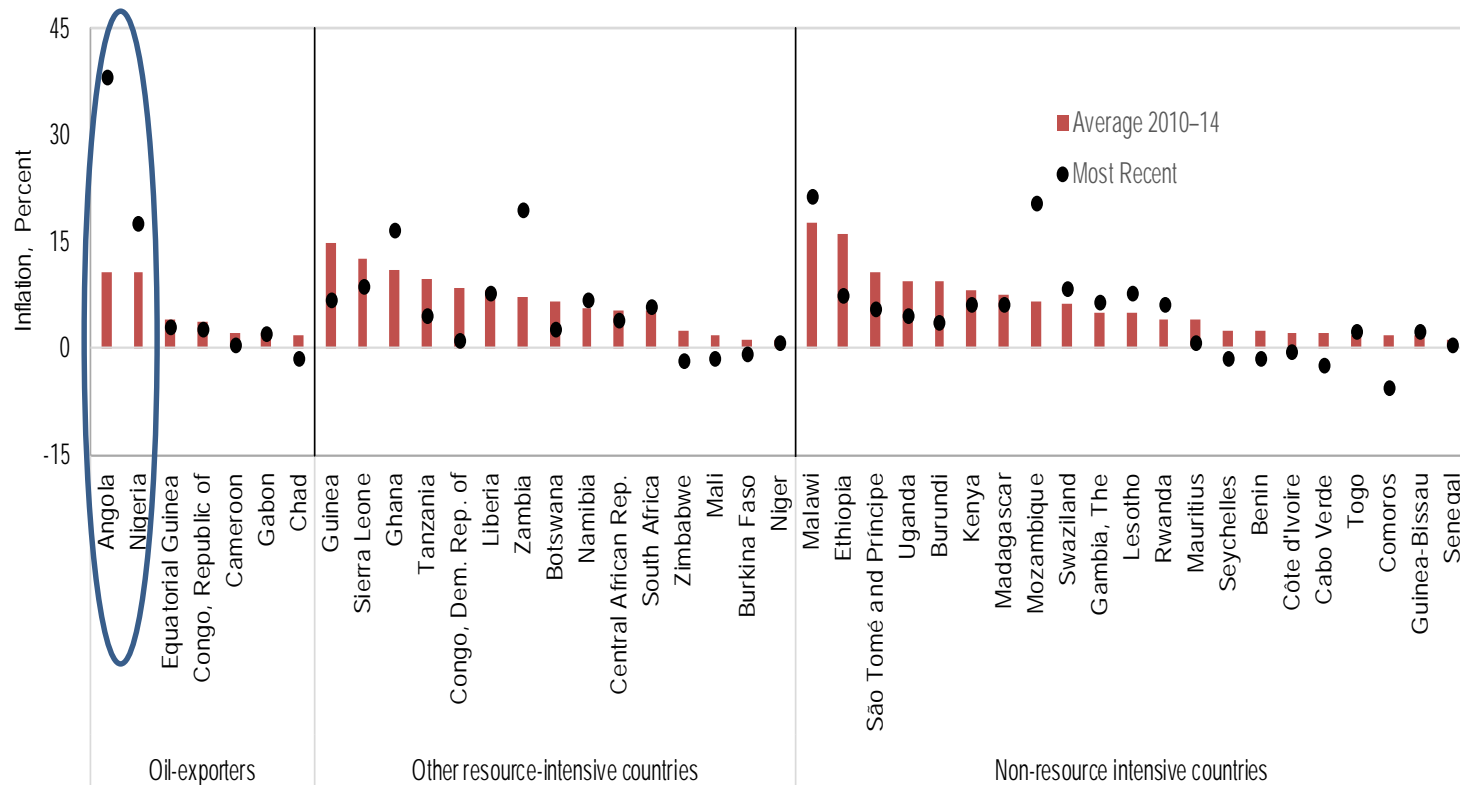
resulting in elevated macroeconomic imbalances.

### Change in Fiscal and Current Account Balances, 2008-16



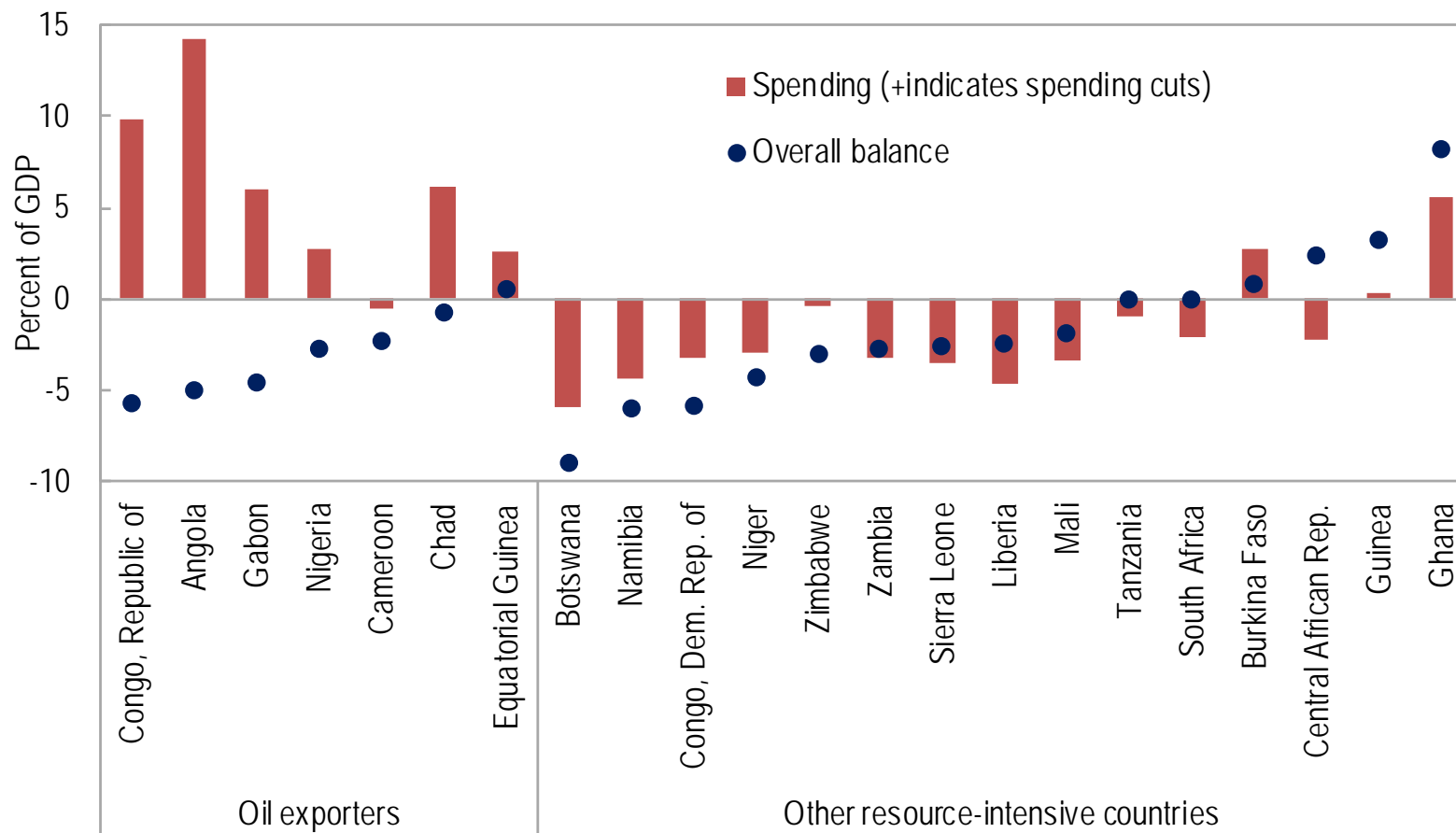
# Inflation has accelerated sharply in some cases,

## Inflation



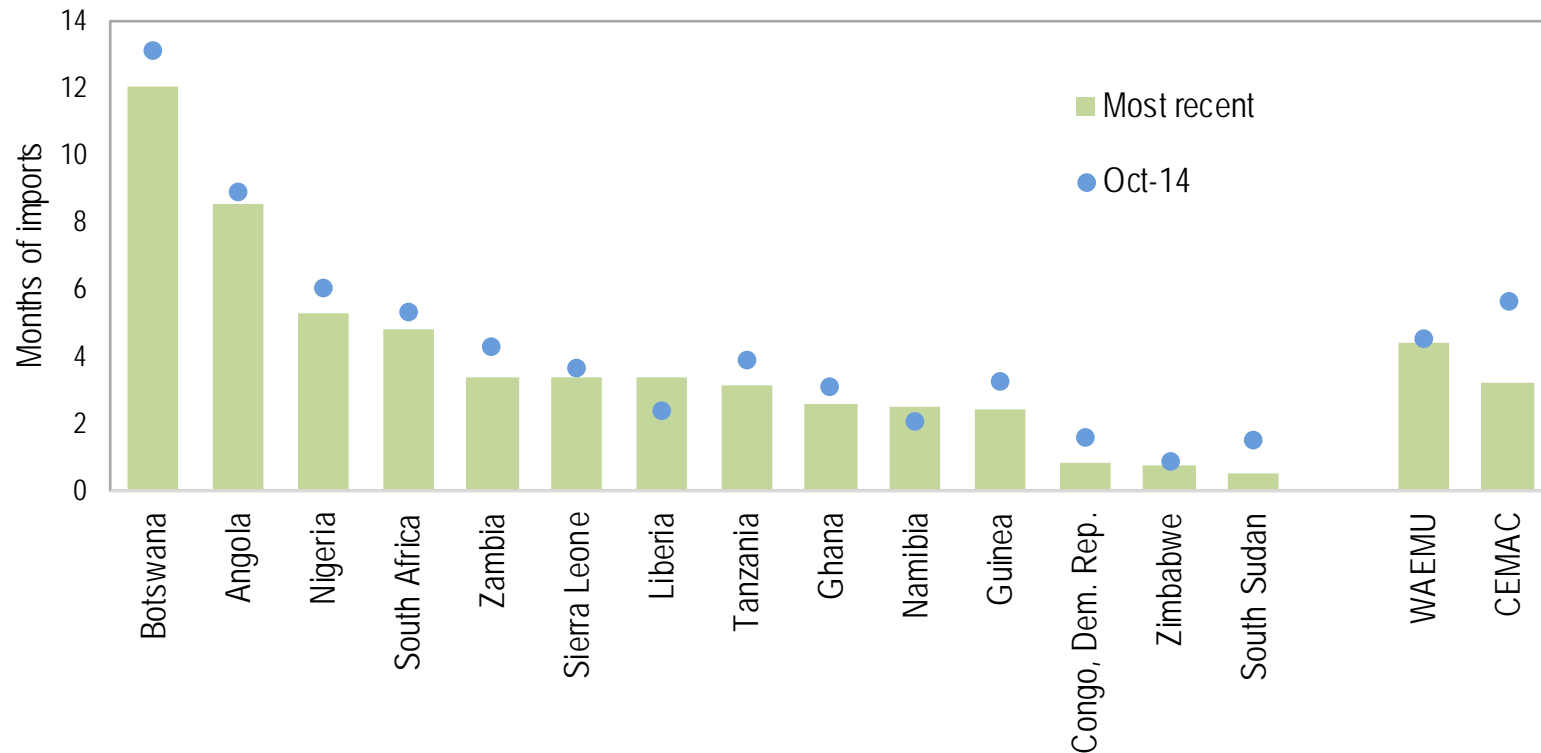
# Fiscal adjustment has been limited, with deficits widening despite spending cuts in most cases.

## Change in Fiscal Balance, 2016 versus 2013



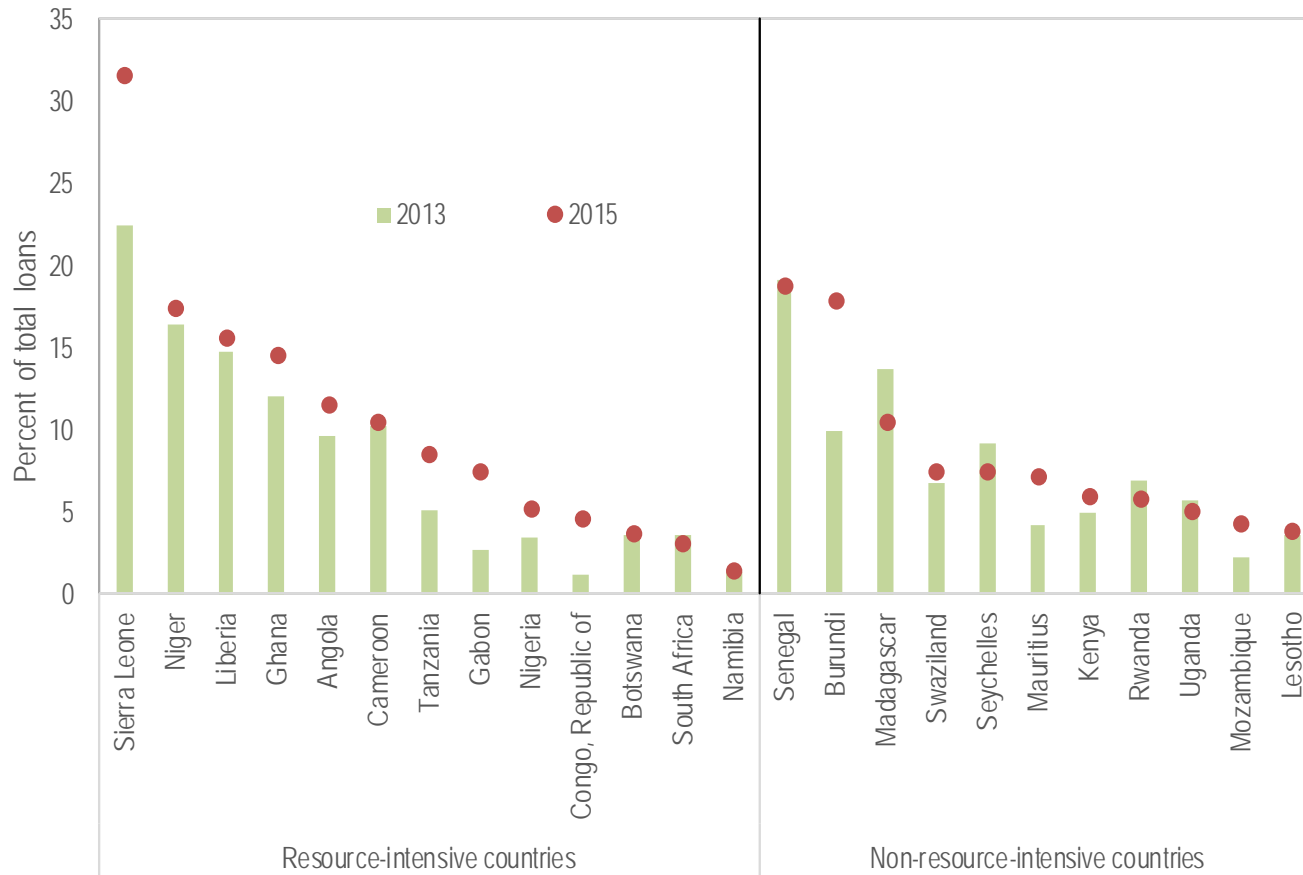
# Foreign reserves are under pressure,

## International Reserves in Months of Imports, 2014-16



as are bank balance sheets.

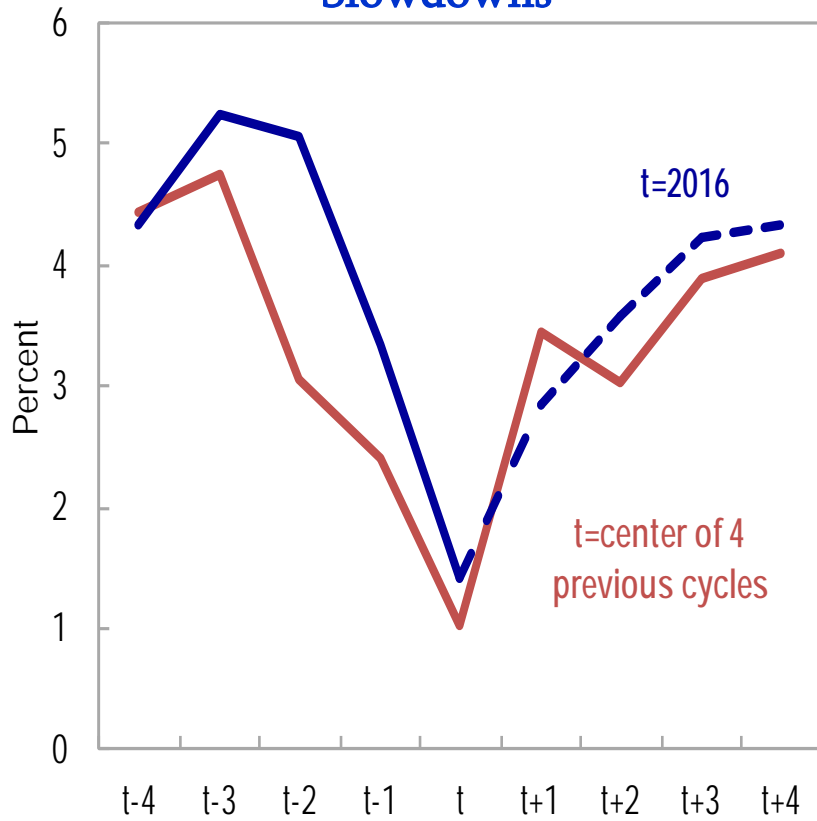
### Bank Nonperforming Loans, 2013-15





For 2017, only a modest rebound for the region is expected, predicated on prompt policy actions.

Real GDP Growth: 2016 vs Past Slowdowns



But risks are significant:

- Further delays in policy implementation
- Political risks in some cases
- Global environment risks (financial market turmoil, lower global growth, etc.)

# Across the region, it is now all about the pace of adjustment:

**In commodity exporters** given the limited buffers, financing constraints, and elevated macro imbalances significant and urgent adjustment needed:

- Fiscal tightening (to the extent feasible in a growth-friendly manner, e.g. subsidy reforms);
- Fiscal adjustment needs greater still in countries in monetary unions;
- Exchange rate should adjust to absorb external pressures where feasible, coupled with tighter monetary policy stance to contain inflation;
- *Only option to ease the pace of adjustment is if it can be embedded in a credible medium-term framework and is accompanied with sufficient concessional financing.*

**In countries still enjoying high growth**, focus has to be on rebuilding buffers by reducing deficits and addressing investment needs through greater revenue mobilization.

# Structural reforms required across the region:

- Domestic revenue mobilization reforms to reduce overreliance on commodity-related revenue
- Expenditure rationalization efforts to avoid abrupt cuts in productive capital spending and support the diversification agenda
- Reforms to improve spending efficiency and trim down untargeted subsidies
- Preserve social safety nets targeted to the most vulnerable segments of the population

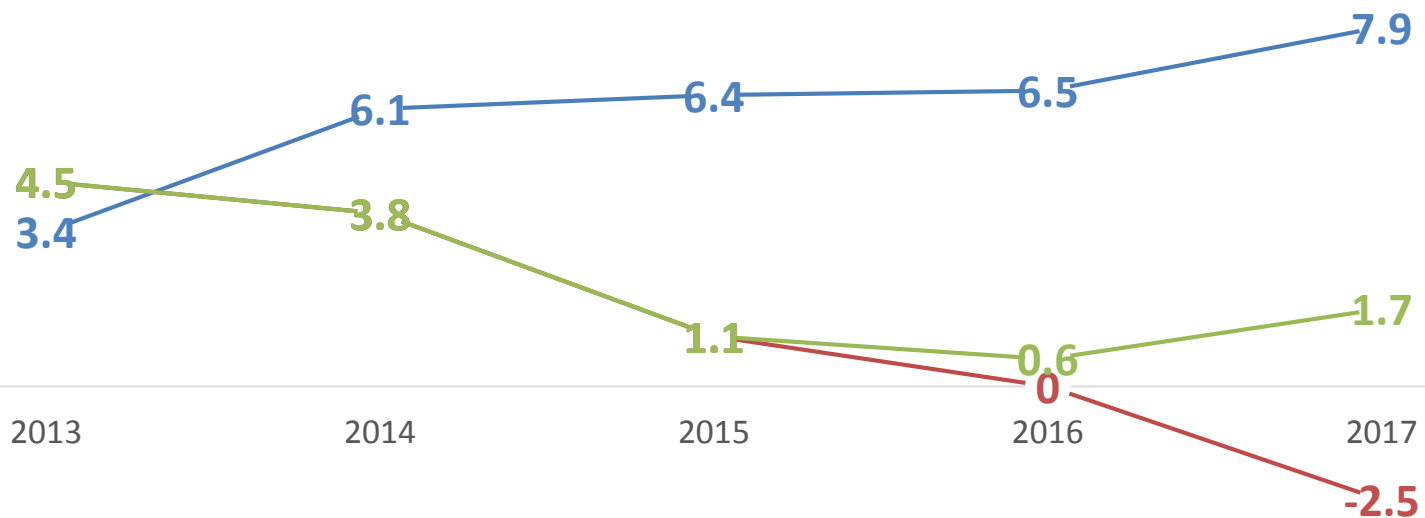
# Zimbabwe's economy:

- Zimbabwe's economic situation
- 2017 National Budget
- Re-engagement – a recap

# Zimbabwe's economic situation

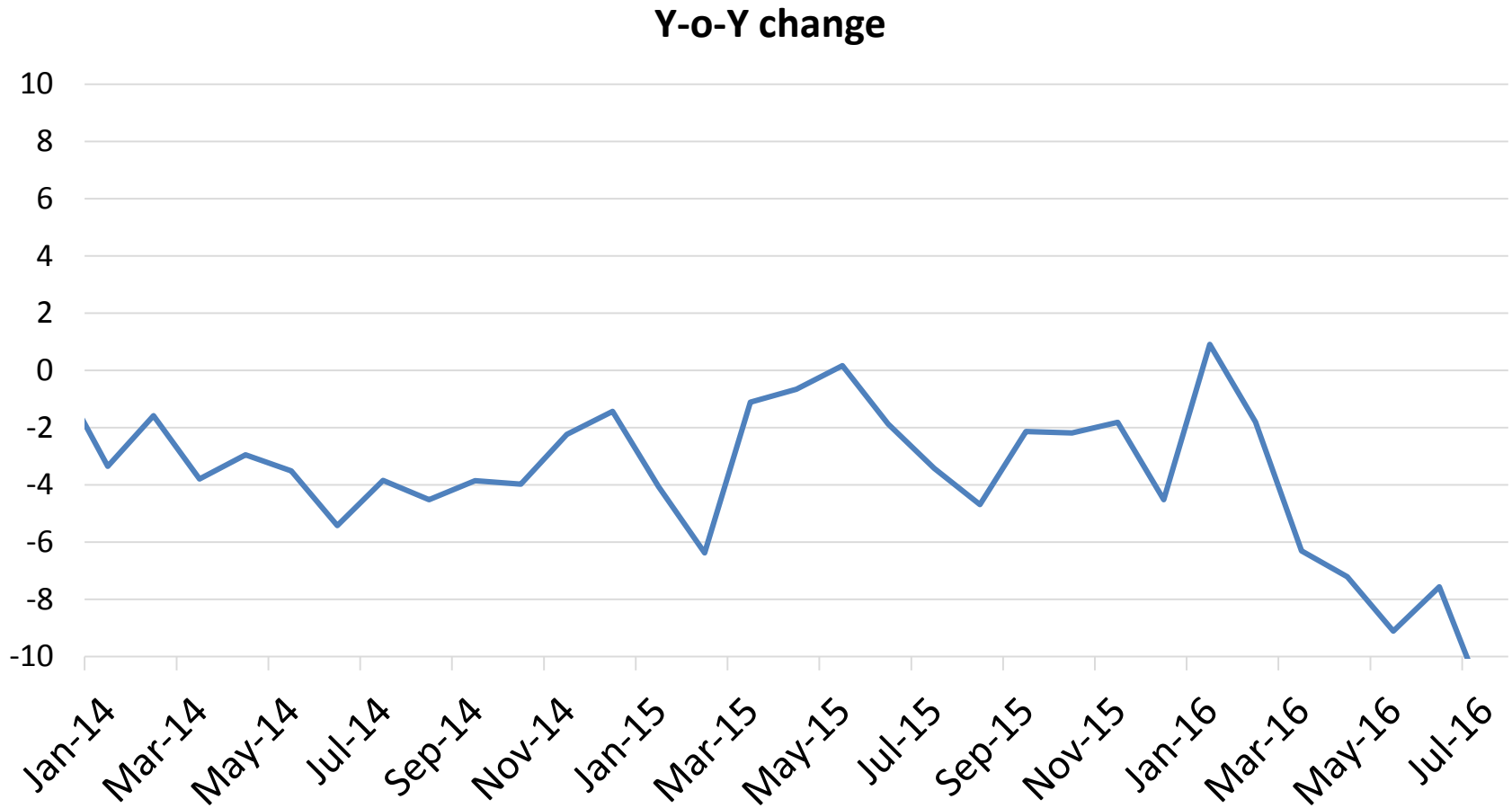


GROWTH RATES  
ZIMASSET VS ACTUAL

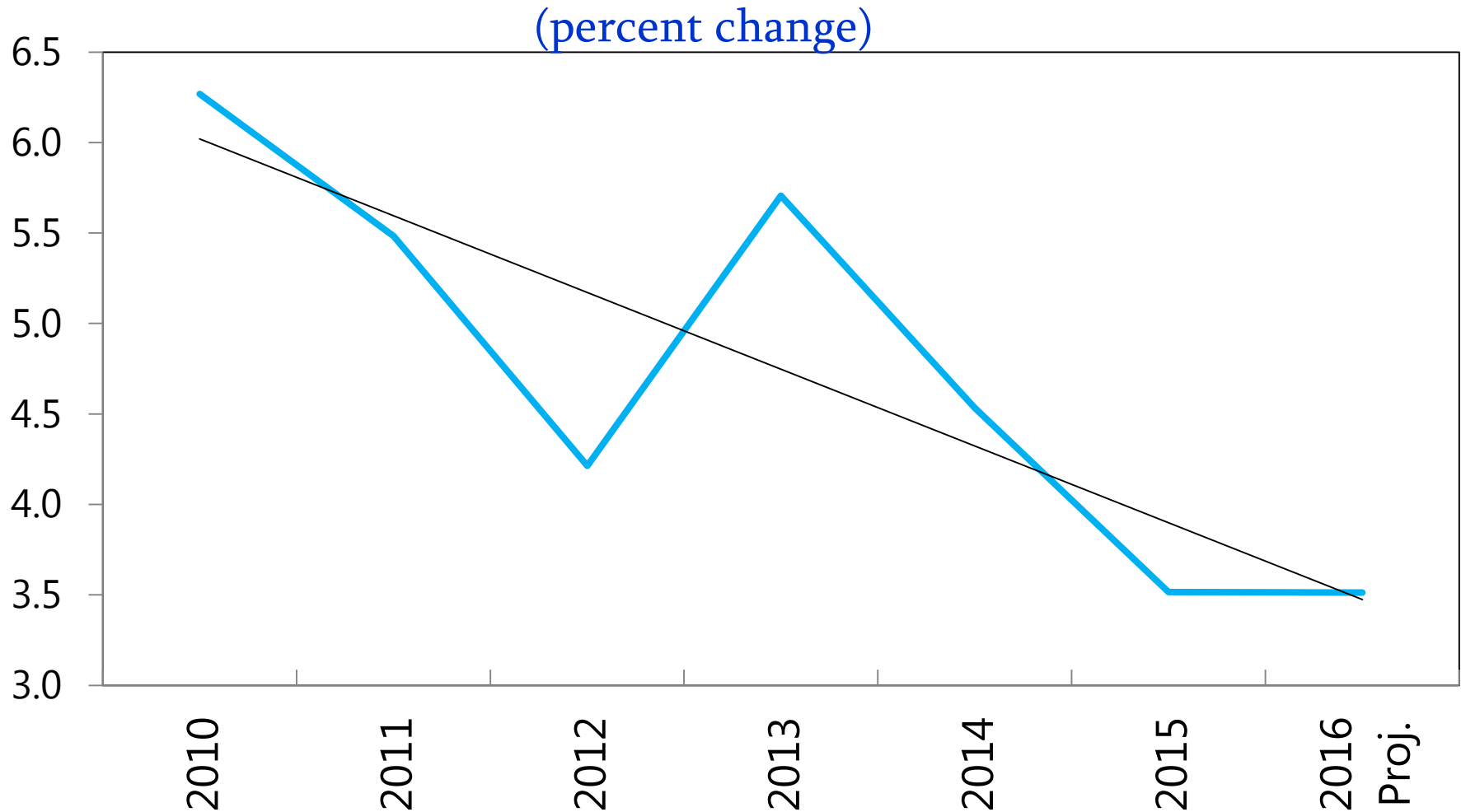


- Zimasset growth figures    - IMF estimates    - Authorities estimates

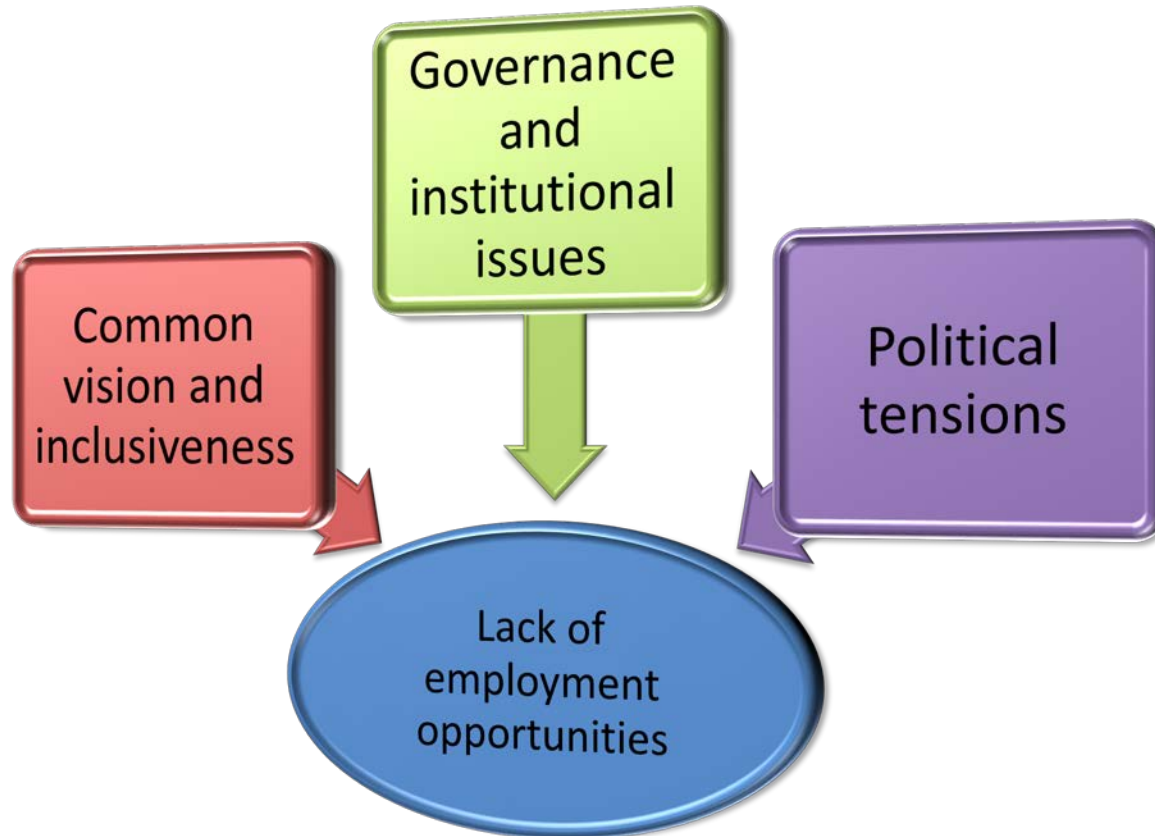
# Credit to the private sector



# Average real GDP growth of top 5 export partners



# What makes the situation more difficult





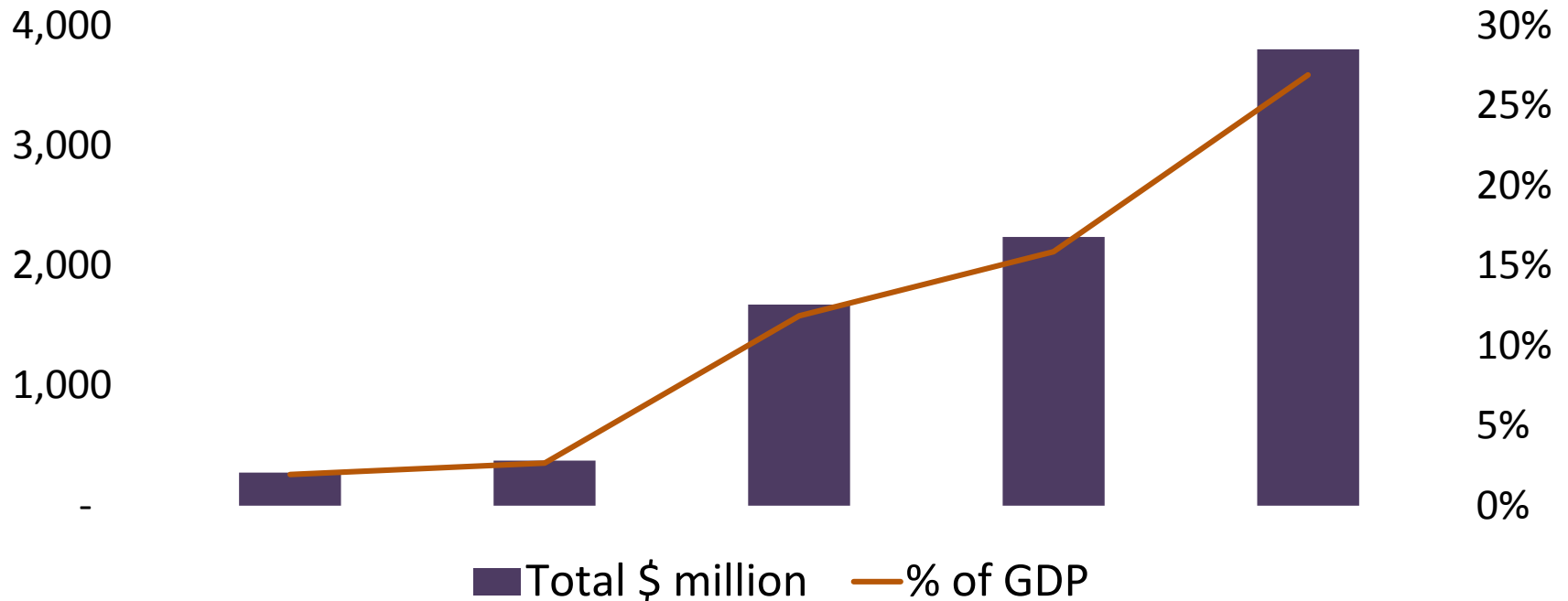
# 2017 National Budget

- Fiscal space continues to decline, and social and economic infrastructure investments continue to suffer
  - The 2016 financing gap is expected at US\$1.18 billion
  - In 2017, a financing gap of \$400 million is anticipated
- Risks remain tilted to the downside in the absence of significant economy-wide reforms and financing
- The debt burden remains high with total debt at 76 percent of GDP – in particular domestic debt has risen sharply

# Reducing the debt burden is important



## Domestic Debt



# 2017 national budget policy priorities

- Restoring fiscal discipline
- Maintenance of the multi-currency regime – including keeping the limit on bond notes
- Poverty reduction
- Stepping up efforts on stimulating productive sectors
- Rebuilding confidence in the financial sector
- Advancing re-engagement and normalization of relations with the international financial community to unlock new financing

# The re-engagement process a recap

## Steps in arrears clearance

- 1<sup>st</sup> Step - clear arrears to IFIs (AfDB, IMF and WB)  
IMF arrears have been cleared
- 2<sup>nd</sup> Step - Design an economic programme that addresses the deep rooted structural issues and can be supported by the IFIs
- 3<sup>rd</sup> Step – need for financing assurances from IFIs and bilaterals to ensure the projected financing gaps can be closed

➤ **Lima is work in progress**

# Useful links

- Online version of the Regional Economic Outlook:
  - [www.imf.org](http://www.imf.org)
  - Our local website [www.imf.org/zwe](http://www.imf.org/zwe)
- Debt sustainability
  - <http://www.imf.org/dsa>
- Paris Club
  - <http://www.clubdeparis.org/en/>



Thank you!