Zimbabwe Economic Outlook

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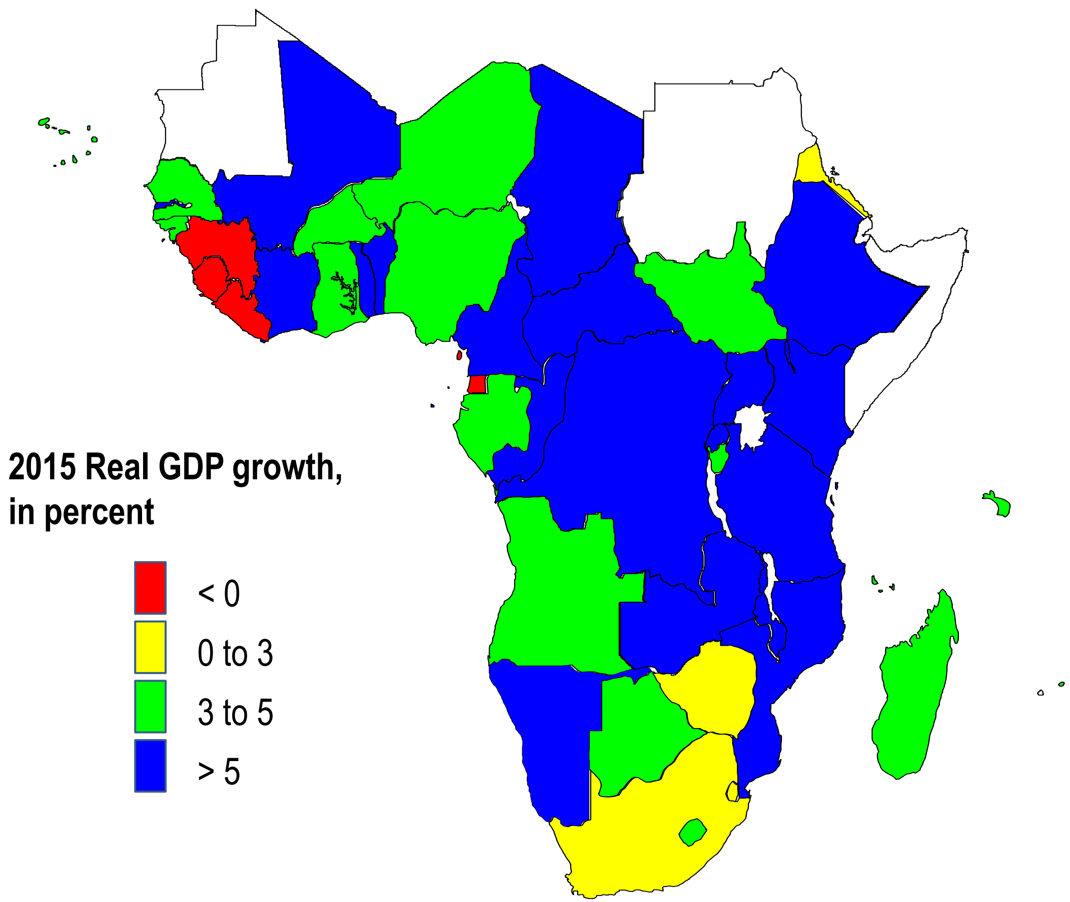
Roadmap

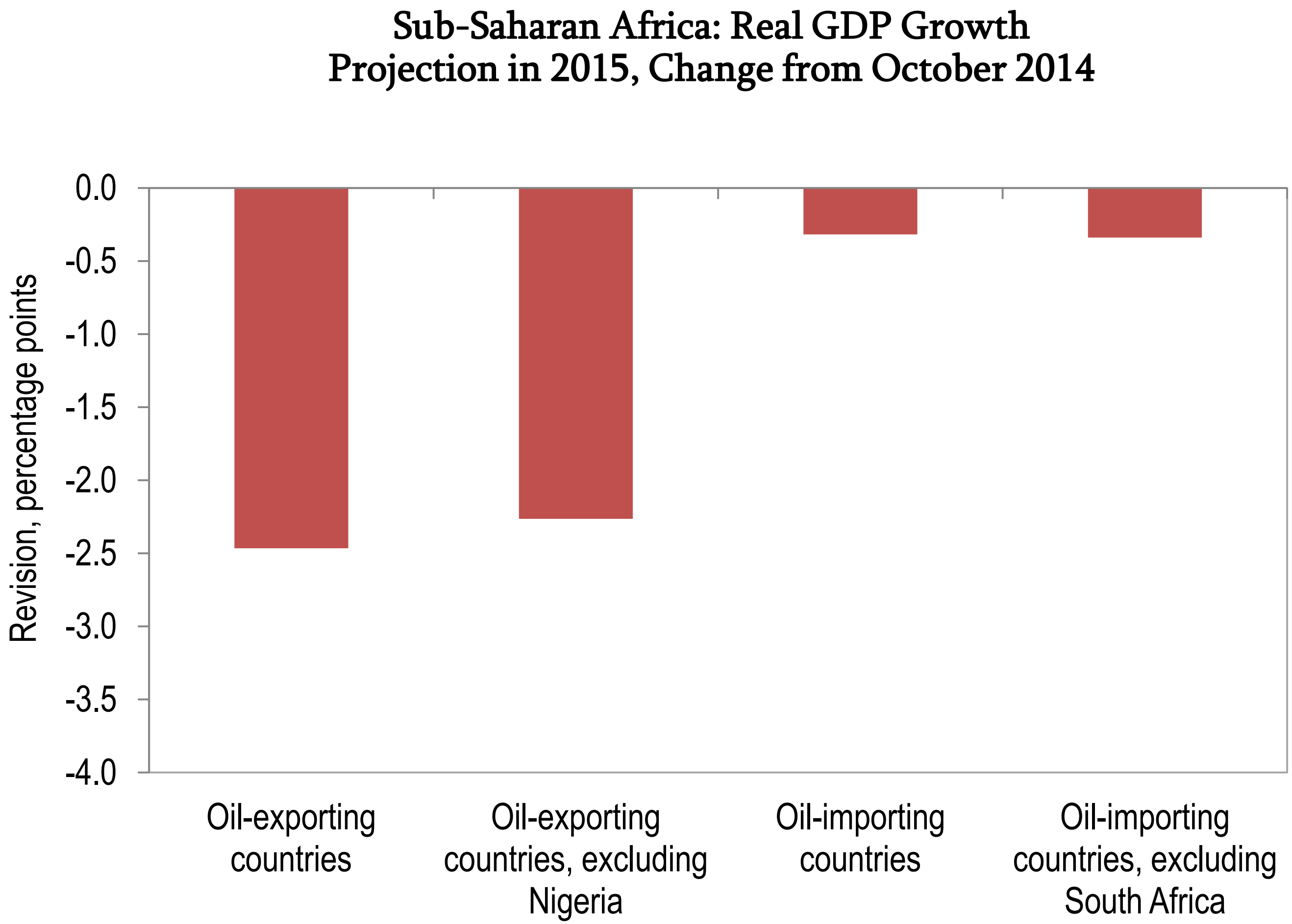
- Economic developments and outlook
- Risks, opportunities and challenges
- Zimbabwe's competitiveness
- What is the IMF doing?
- Next steps

A large part of the region will experience solid growth in excess of 5 percent in 2015



Source: IMF

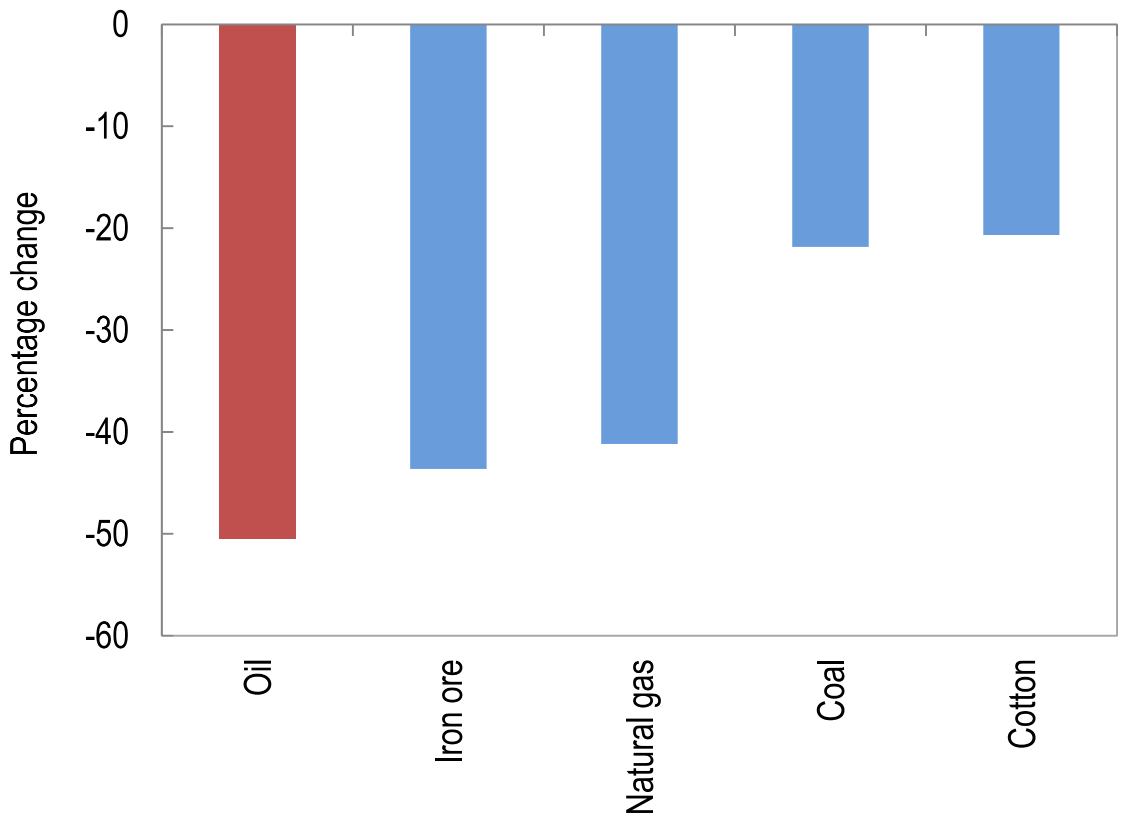
… but with heterogeneous downward revisions since October 2014



Source: IMF

Global prices of oil and other commodities, have declined…

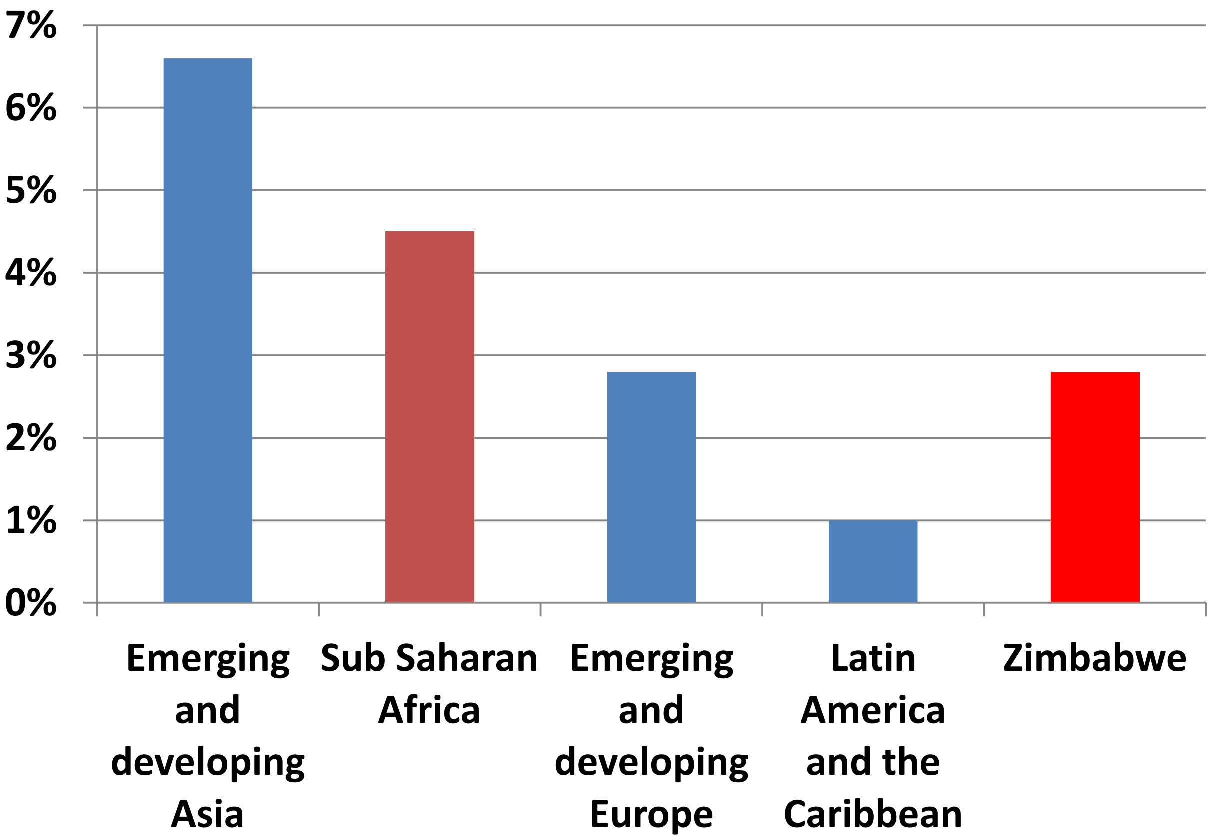
Selected Global Commodity Prices, Change from June 2014–March 25, 2015



Source: IMF

2015 regional growth outlook

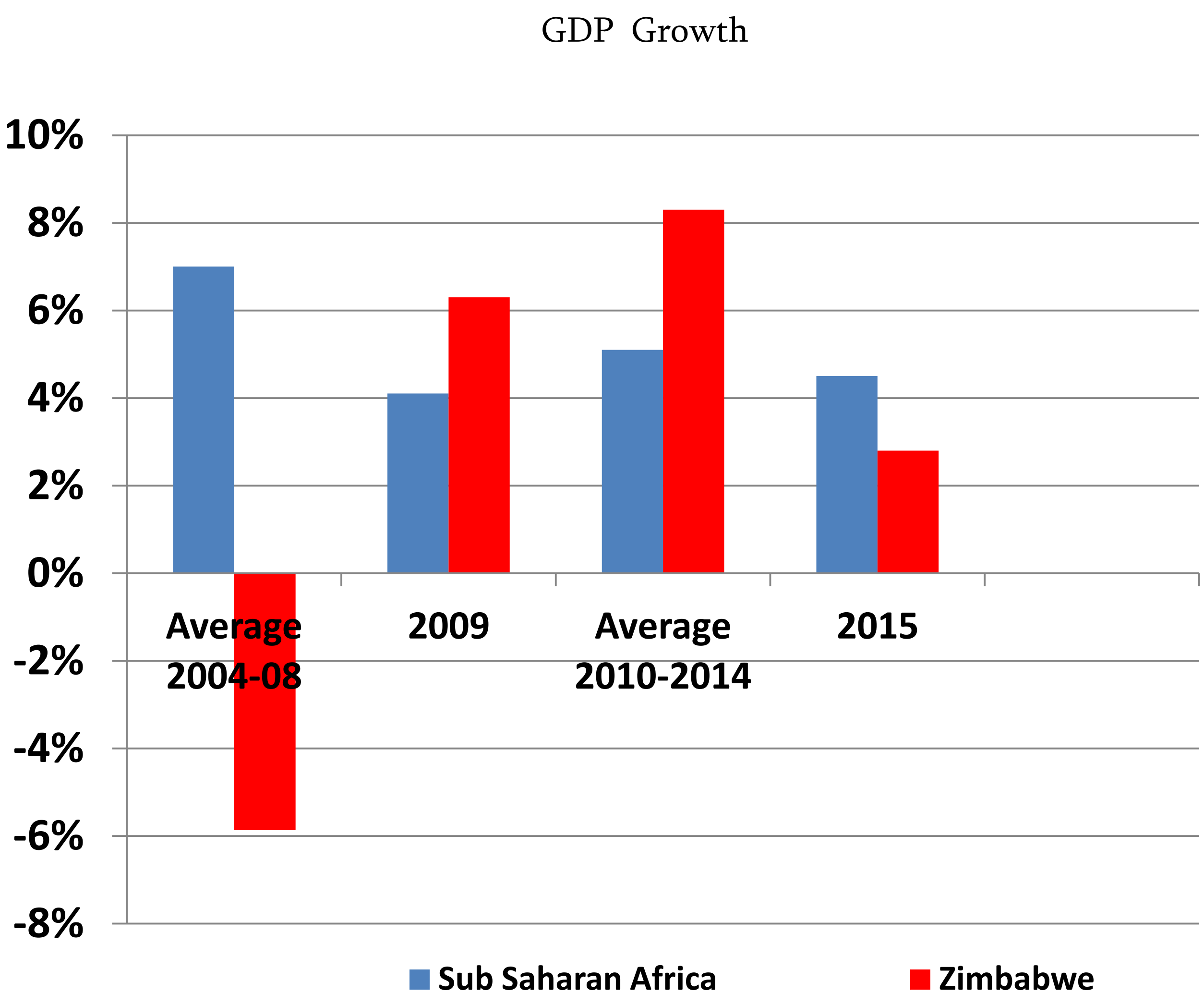
Comparison of regions: GDP Growth 2015



- Notwithstanding headwinds, SSA growth remains solid… *Still the 2nd fastest growing region of the world*
- For SSA, this is a slight decline from 5 percent in 2014
- Zimbabwe is expected to be below the regional average

Source: IMF

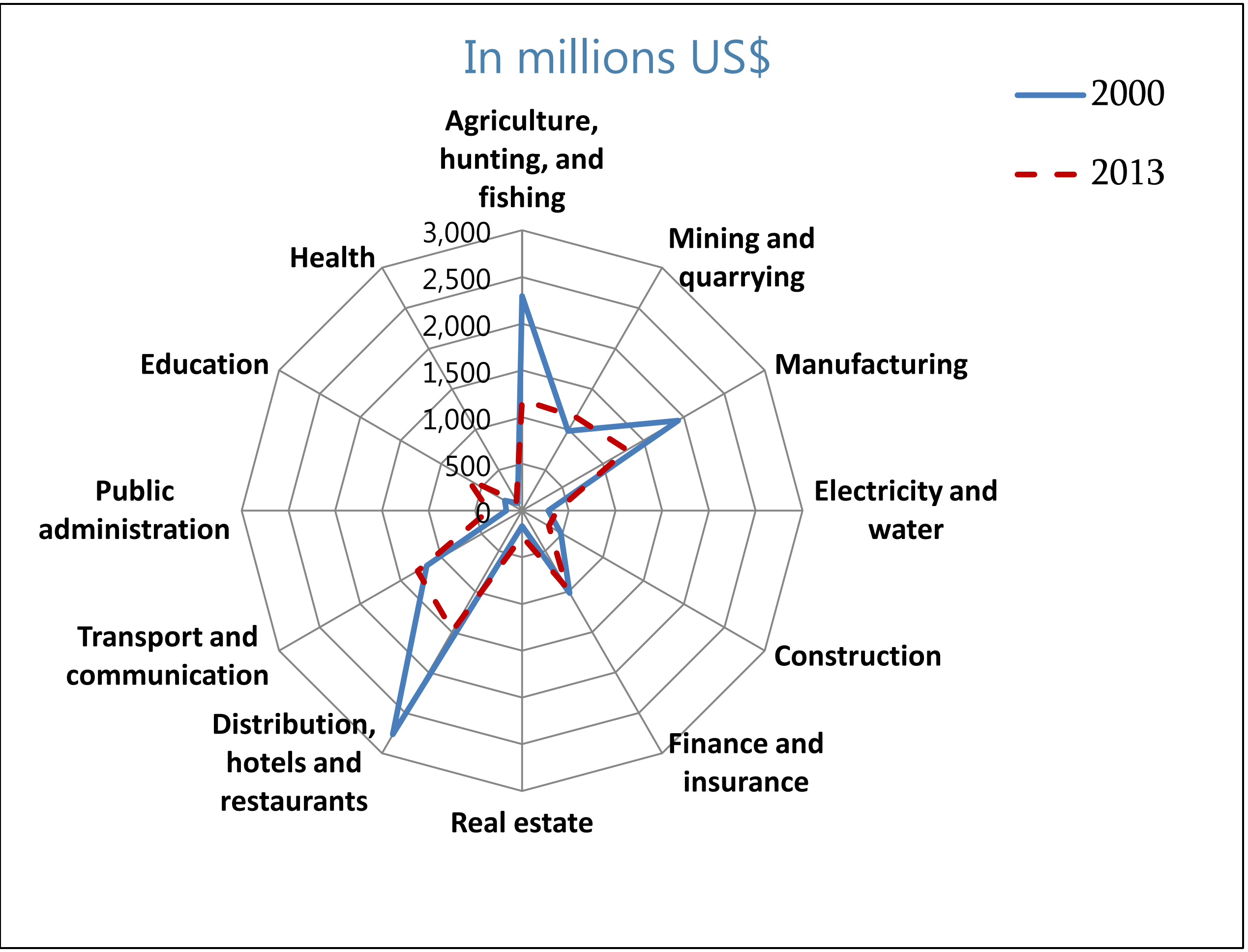
Growth in the region: 2004 - 2015



- Zimbabwe's growth has surpassed regional average in the last 6 years
- However growth is expected to decline this year owing to adverse weather conditions

Source: IMF

GDP contribution by different sectors (2000– 13)

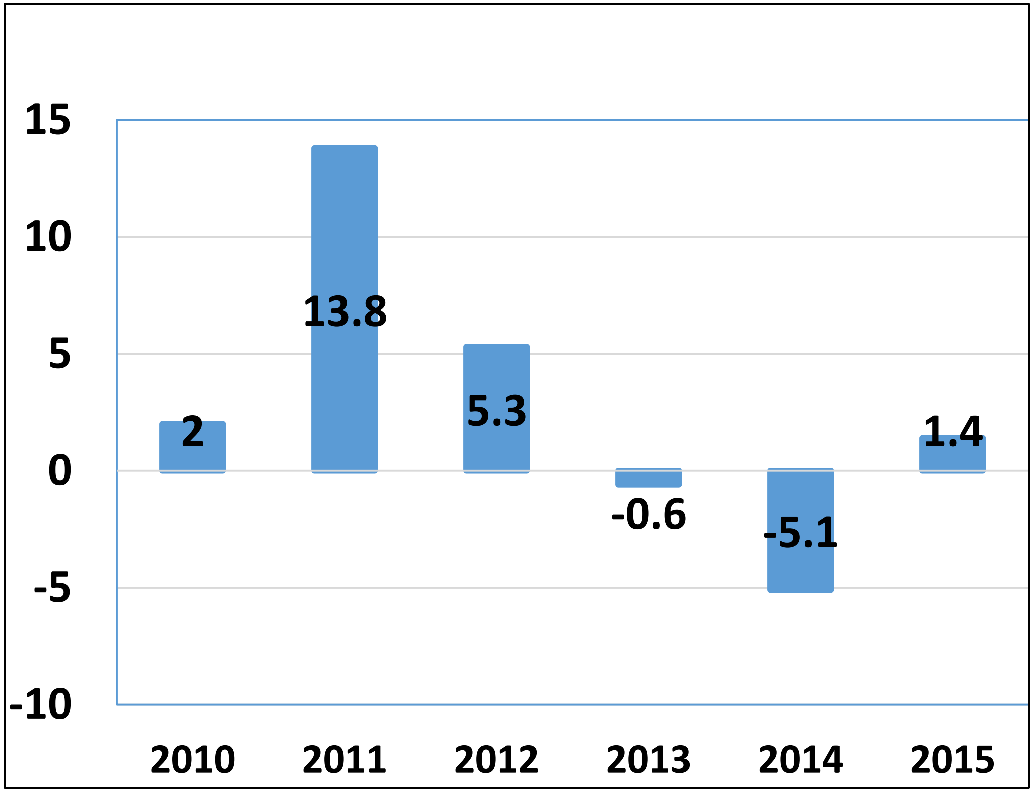


- *All sectors' contribution to growth have been declining over the years despite growth in some years*
- The mining and agriculture sectors remain important but are susceptible to shocks
- Building resilience in these two important sectors is important

Source: IMF

Manufacturing sector output growth rate (%) 2010-15

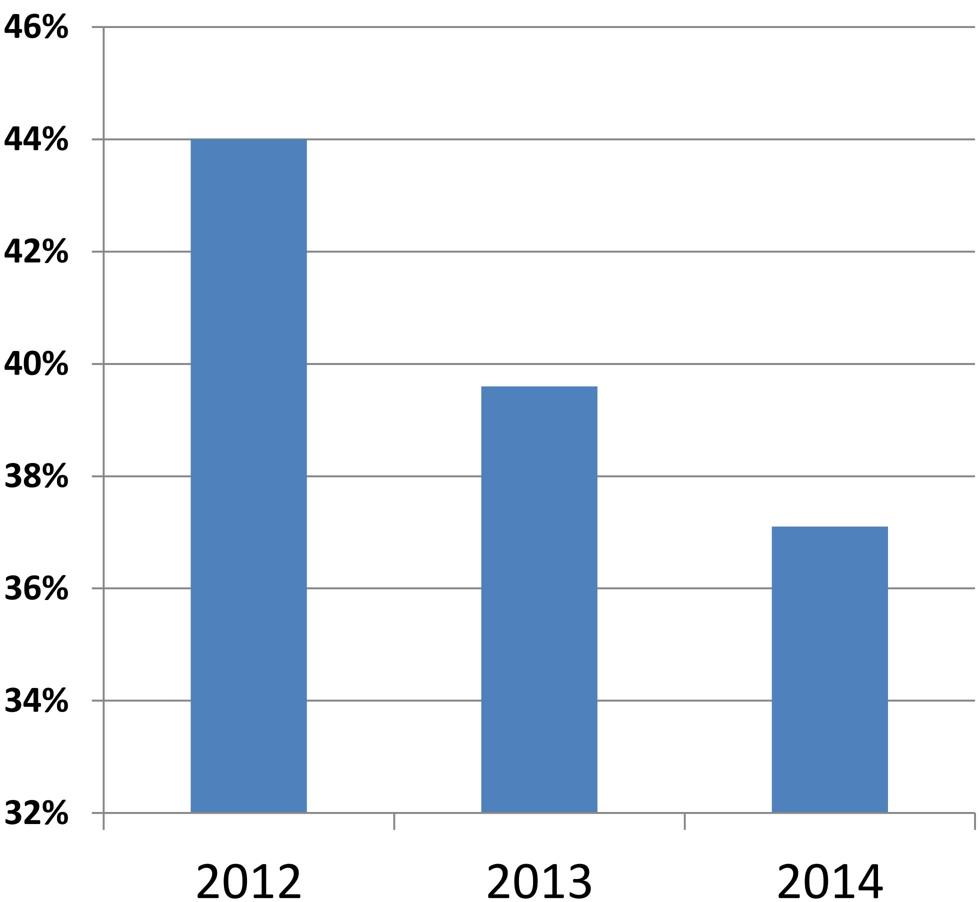
Growth trend of the manufacturing sector



- The sector performance can be seen through declining capacity utilisation, company closures, and retrenchments
- **Challenges:**
  - Antiquated plant and machinery
  - Inflexible labour laws
  - Influx of imports
  - Weak demand

Source: MoFED

Capacity utilization in the manufacturing sector

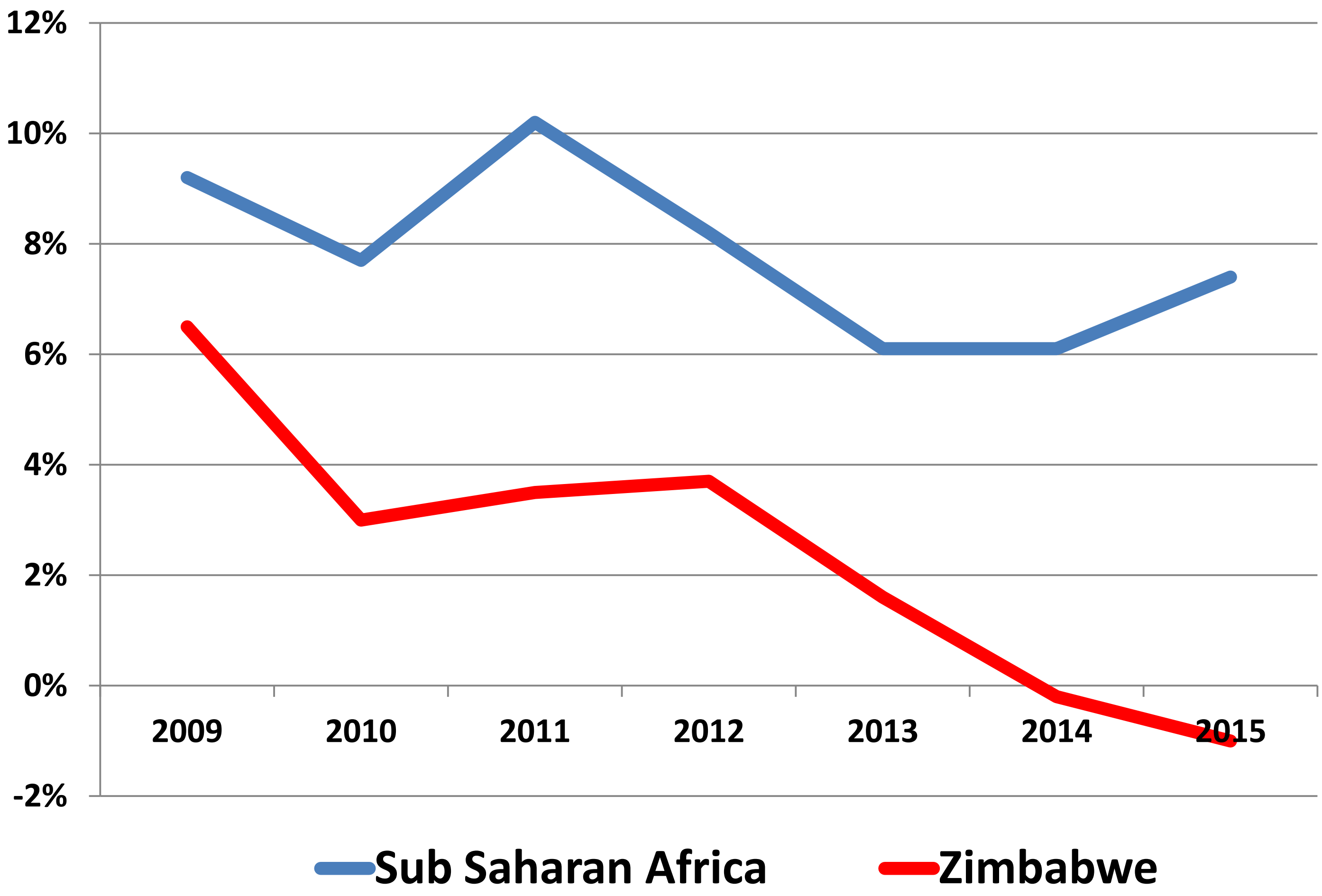


- Subsectors doing well are construction, beverages and clothing
- Factors driving capacity utilization in the construction sector are improved access to land, a rise in mortgages, and personal savings owing to the stabilization of the economy
- For clothing – measures by government to restrict imports and resuscitation of key firms

Source: CZI

Inflation developments

Comparison of Zimbabwe and the SSA region



Source: IMF

Deflation and disinflation

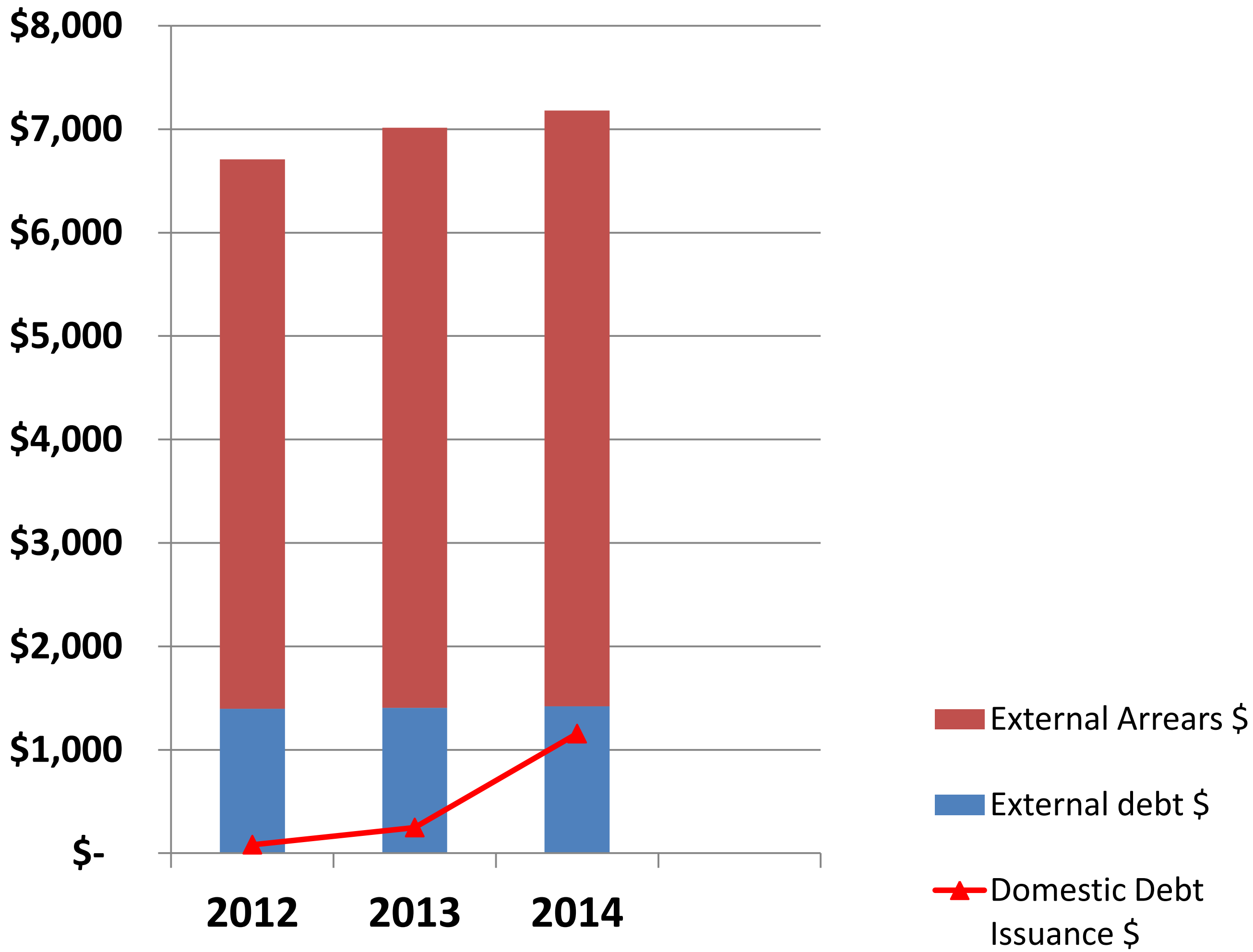
Domestic factors

- The general correction of prices from the hyperinflationary era to the prevailing stable macroeconomic environment; also related to the availability of goods (groceries) from the informal sector
- Improvement in transactions: the introduction of bond coins helped lower prices
- Poor service delivery affecting real estate: building occupancy, rentals moving from CBD to suburbs
- Constrained effective demand due to reduced production, company closures and retrenchments
- Competition in the telecommunication sector led to a decline in tariffs

External factors

- Depreciation of the South African Rand (Zimbabwe's major trading partner)
- Decline in international commodity prices e. g maize, wheat, effect of oil prices is low in Zimbabwe will to some extend benefit the countries BOP position

Debt and arrears (PPG debt)



Zimbabwe remains in debt distress

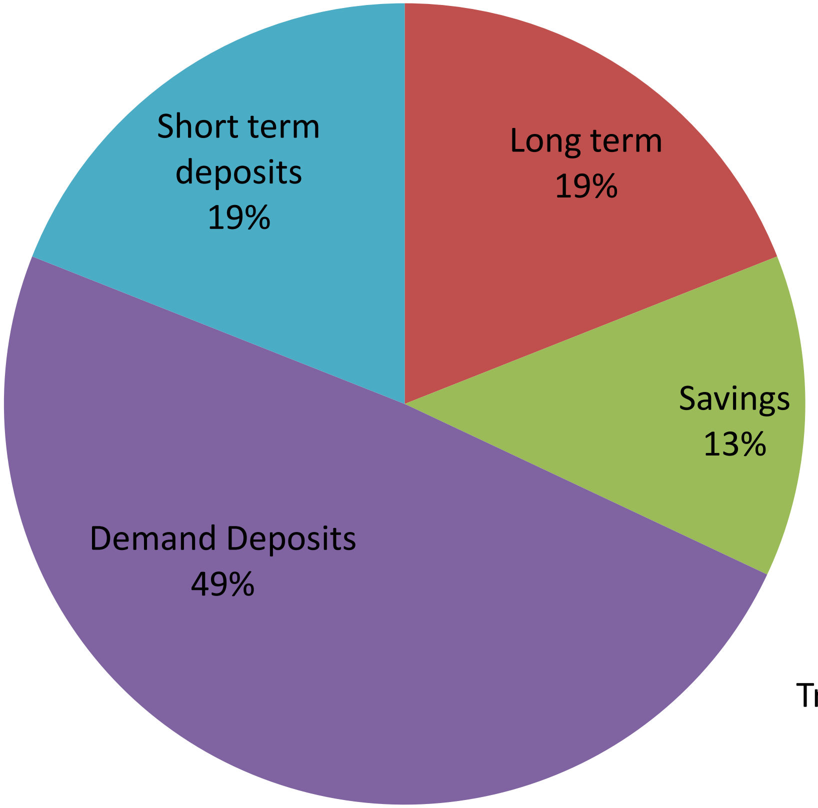
- Domestic debt issuance increased from 1 percent of GDP in 2012 to 8 percent of GDP in 2014
- The domestic debt stock was 9 percent of GDP in 2014
- In 2014 the external debt stock was 53 percent of GDP, of which 42 percent was in arrears

Source: MoFED

Bank deposits and credit composition Dec 2014

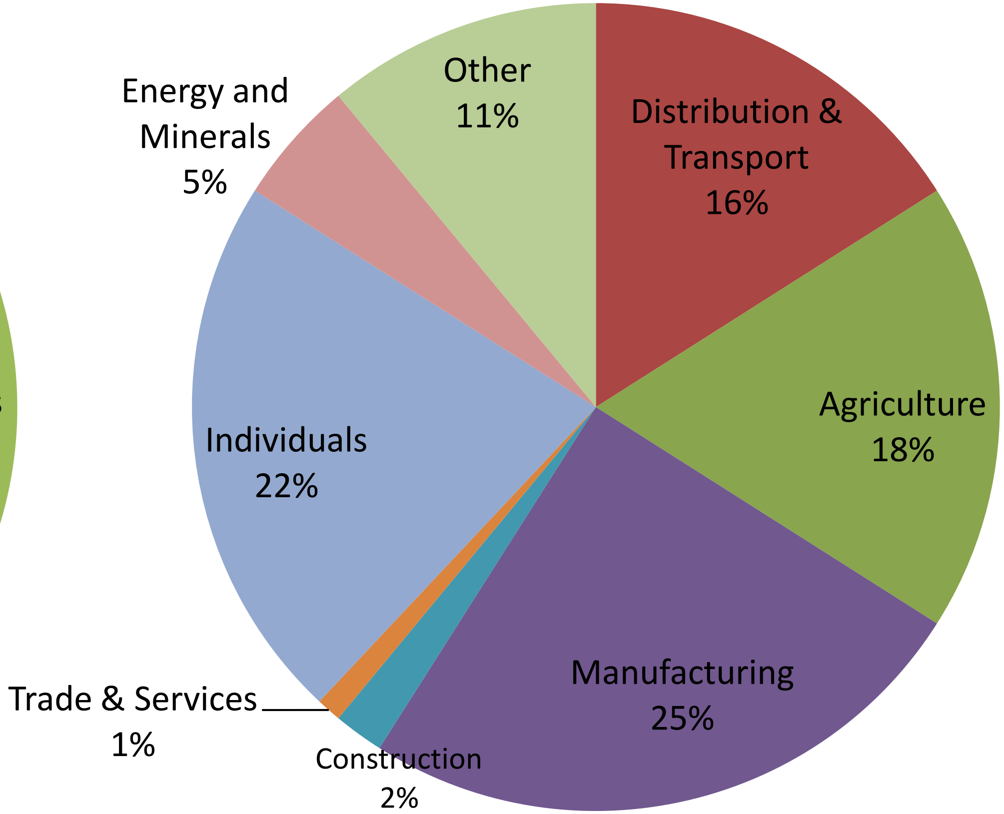
Composition of banking sector deposits

Demand deposits constitute the bulk of deposits at 49 percent



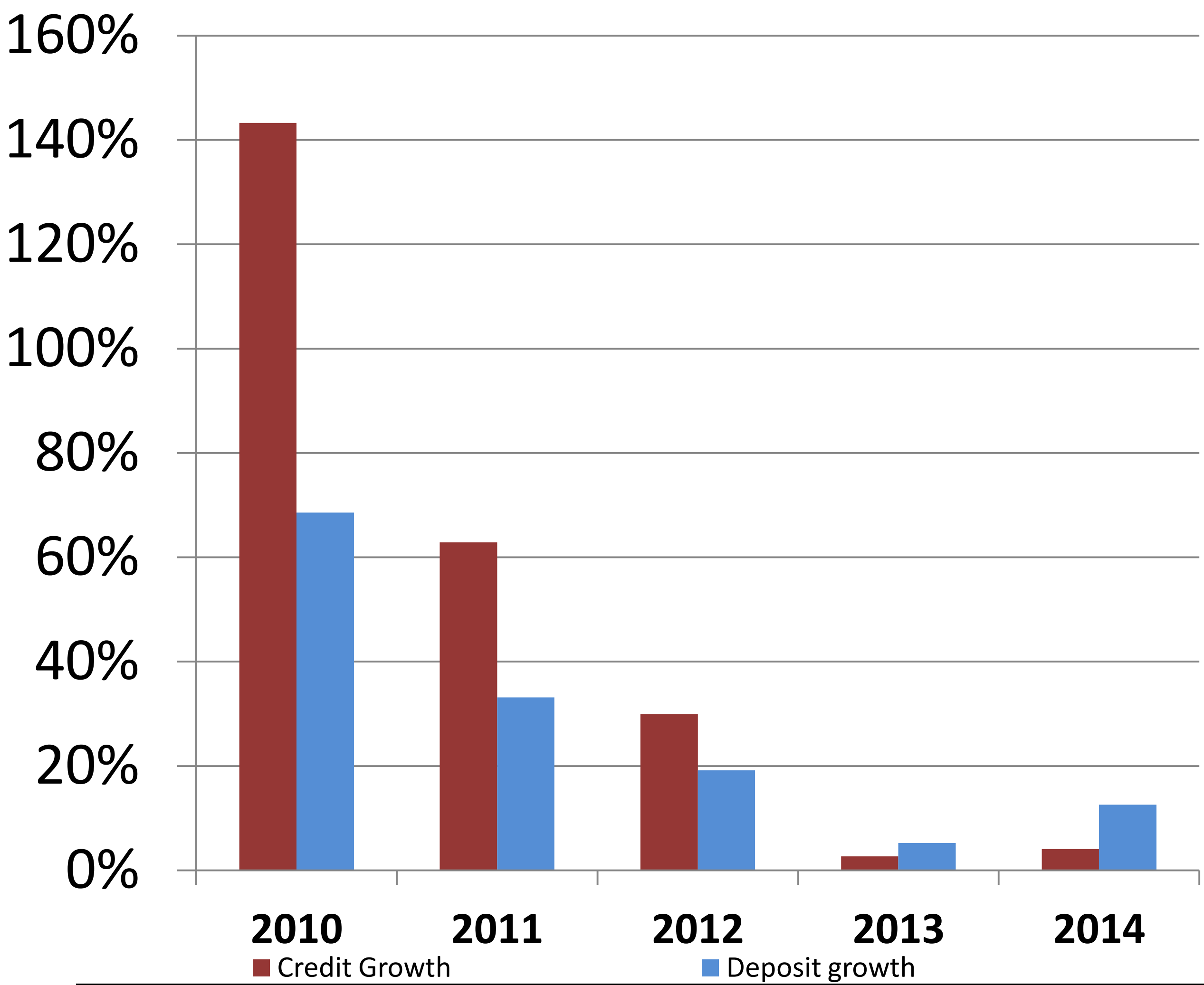
Composition of private sector credit

Consumptive lending is high - Loans to individuals constitute 22 percent



Source: RBZ

Credit and deposit growth



- Credit expansion has generally been constrained by the persistent liquidity challenges, banks' non-performing loans, high credit risk, and sluggish economic activity
- NPLs grew from less that 2 percent in 2009 to 20 percent in the first half of 2014; the rate has since declined to 15.3 percent

Source: RBZ

Developments in the 1st quarter

- **Agriculture** – The sector, initially projected to grow at 2.5 percent (in March 2015) is expected shrink after adjusting all crops based on the 2nd Crop Assessment
- **Mining** – The sector did well in the first quarter of 2015 with gold, coal, and nickel posting modest increases in output compared to the same period last year
- **Fiscal position** – The fiscus remains constrained with 1st quarter revenues though higher than 2014 revenues by **3 percent** still below target. Expenditure financing remains on "what's more pressing for the day" basis
- **BOP** position remains precarious with imports and exports increasing by 14.3% and 7.1%, respectively, in the first quarter of 2015 relative to the same period of 2014

Mitigating factors to the overall difficult situation

- Better performance of the mining sector
- Improved capacity utilization in the manufacturing sector particularly beverages and construction
- Stabilization of the financial sector, through a number of reforms
- Lower oil prices

Risks and Opportunities

Risks

- Decline in global prices
- Weaker-than-programmed fiscal performance
- Possible difficulties in policy implementation
- Strengthening US$
- A further deterioration of the liquidity situation due to a rise in food imports, low commodity prices
- Relocation of companies to neighboring countries e.g Colgate Palmolive (2014), Reckitt Benckiser Zimbabwe (Jan 2014) to South Africa

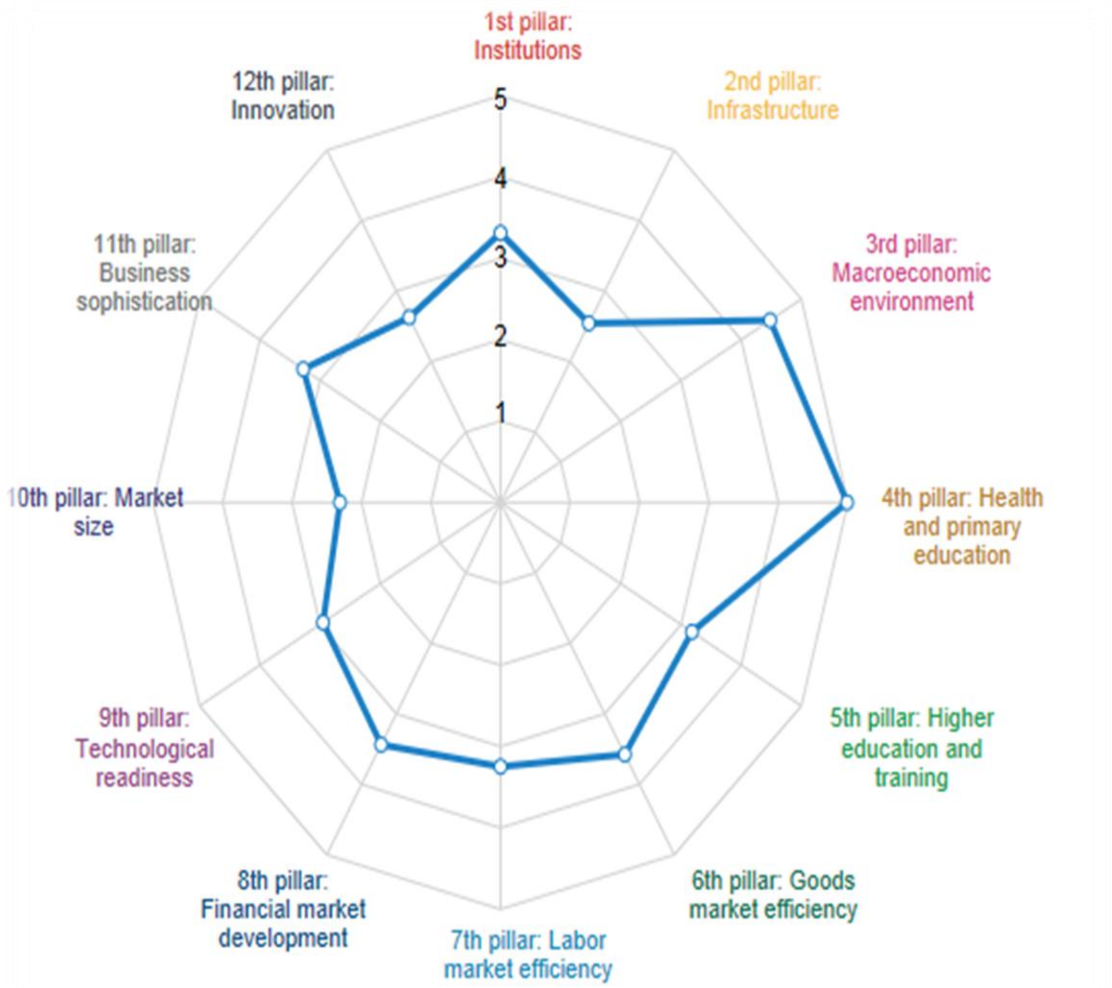
Opportunities

- Lower oil prices
- Improved relations with the international community – EIB to resume funding, lifting of measures by the EU etc.
- Temporary protective windows by Government e.g., the clothing sector
- Reforms currently underway
  - Business climate
  - Financial sector
  - Joint Venture Bill
  - Reviewing the 1985 Labour Relations Act
  - Land Commission Bill

Other challenges

- **Corporate governance**
  - Increased company failures
  - This might answer the question of "resilience" in the private sector – "those that are doing well continue to do relatively well" e.g, Dairibord, Delta Beverages
  - Need sound corporate governance principles in line with international best practices
- **Weaker aggregate demand** –
  - Domestic demand is relatively low and this impacts on margins and capacity utilization
  - The low aggregate demand is due to the prevailing economic situation, stagnant or non payment of wages in both private and public sector and unemployment
- **The decline in fiscal space**
  - Affects government capacity to provide services and invest in infrastructure
- **Investment climate and ease of doing business**

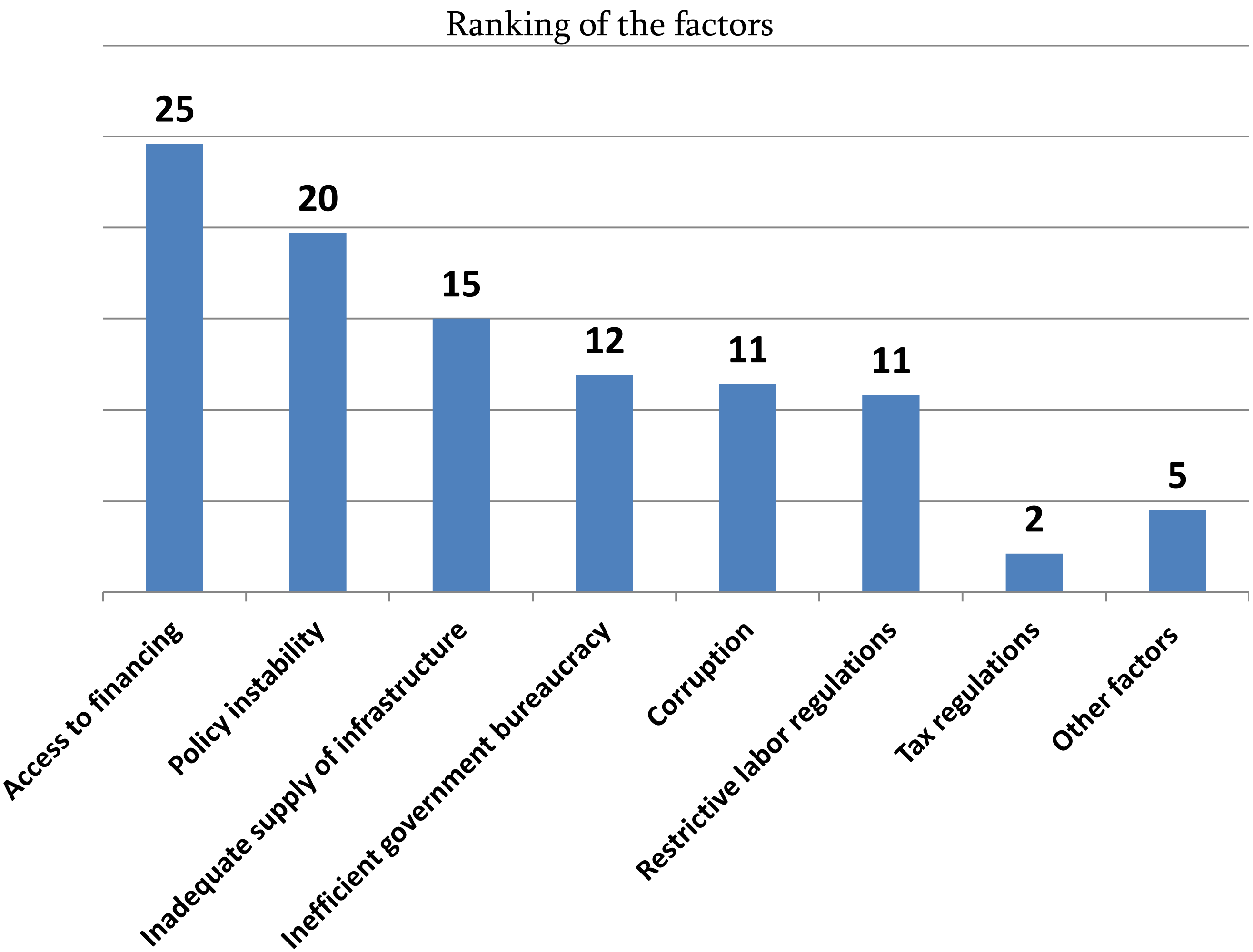
Zimbabwe's competitiveness: 124/144



- **Areas where Zimbabwe did well**
  - Macroeconomic stability
  - Health and Primary education
  - Marketing efficiency
  - Financial market development
  - Business sophistication and institutions
  - Higher education and training
- **Areas to be improved on**
  - Infrastructure
  - Technological readiness and innovation
  - Market size

Source: WEF

The most problematic factors for doing business in Zimbabwe



Other more benign factors

- Tax rates
- Government instability/coups
- Insufficient capacity to innovate
- Poor work ethic in national labor force
- Crime and theft, Poor public health
- Inadequately educated workforce
- Foreign currency regulations and
- Inflation

Source: WEF

Ways to improve competitiveness

Policy options

- Maintaining macro economic stability remains important
- Address bottlenecks in costs and infrastructure, e.g., electricity and water supply, wages aligned to productivity levels
- Improve corporate governance
- Improve levels of investment (well-targeted investments in sectors where Zimbabwe has a competitive advantage) and reducing the cost of doing business
- Promote the incorporation of the latest technology into investment
- Encourage investment in human capital
- Reduce boarder leakages

What the IMF is doing in Zimbabwe

- Annual Article IV Consultations
- Providing targeted technical assistance – PFM, ZAMCO Revenue Administration and Customs Administration
- SMP – October 2014 to December 2015
    - *Balancing the primary fiscal accounts*
    - *Restoring confidence in Zimbabwe's financial sector*
    - *Improving the investment climate*
    - *Garnering support for a strategy to clear arrears with multilateral institutions and subsequently bilateral creditors*

Next steps

- Zimbabwe needs external financing to make progress on its development agenda
- The key obstacle toward external financing is the fact that Zimbabwe is in arrears to multilateral institutions and bilateral creditors
- Thus, a key objective of our work is to help the government come up with a strategy on how these arrears could be cleared, which could then unlock new financing from multilaterals, including for example the IFC, which supports the private sector

Useful links

- General IMF websites:
  - ➢ www.imf.org
  - ➢ www.imf.org/zwe (our local website)
- Debt relief
  - ➢ http://www.imf.org/external/ns/search.aspx?NewQuery=debt+relief&submit.x=0&submit.y=0
- Debt sustainability
  - ➢ http://www.imf.org/dsa
- Paris Club
  - ➢ http://www.clubdeparis.org/en/

Thank you