

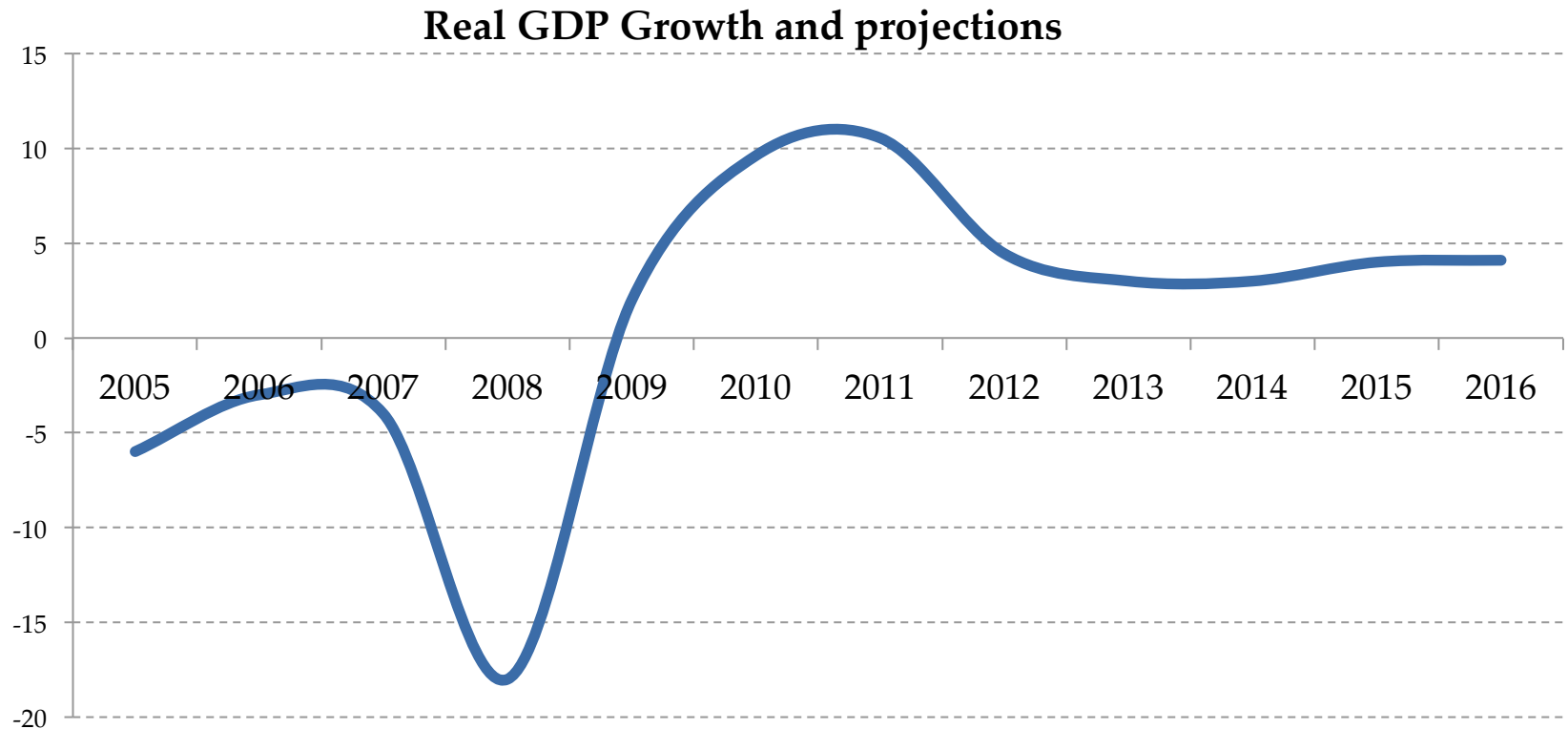
From Economic Rebound to Transformation

Overcoming long-term challenges for
a Zimbabwean Recovery

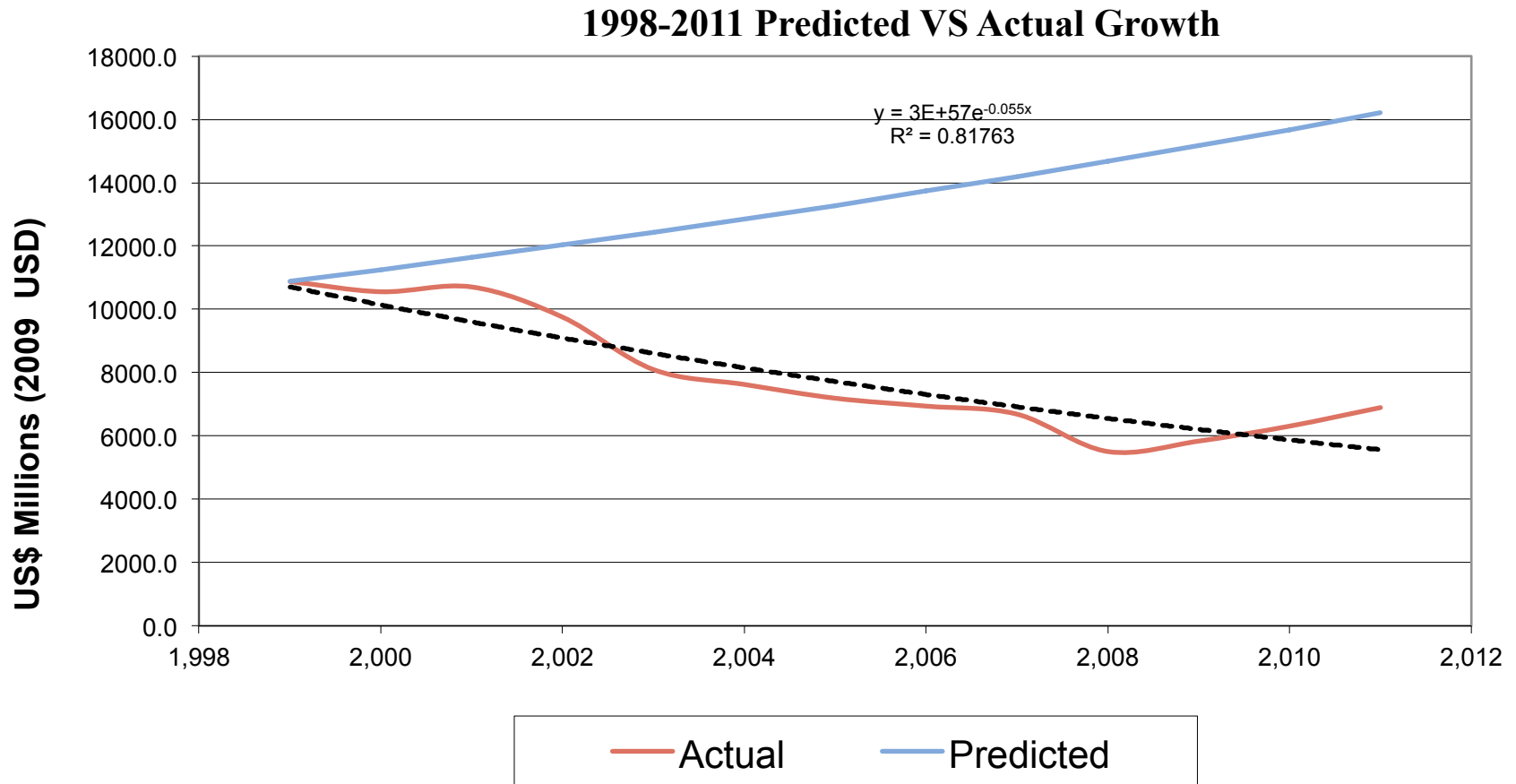
We'll focus on two long-term challenges:

- Re-starting the process of economic transformation
- Re-integrating regional and global financial markets

After the vigorous rebound growth is fading

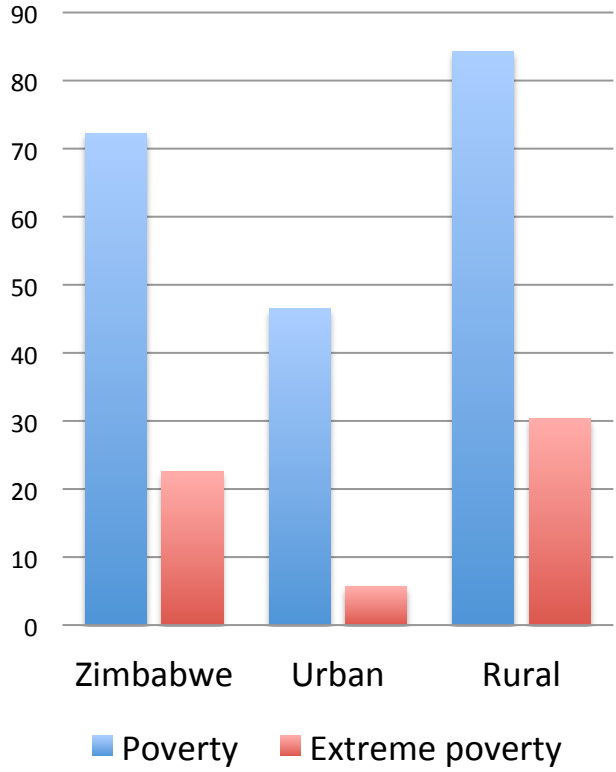


...and it's a long way to recovering the lost ground

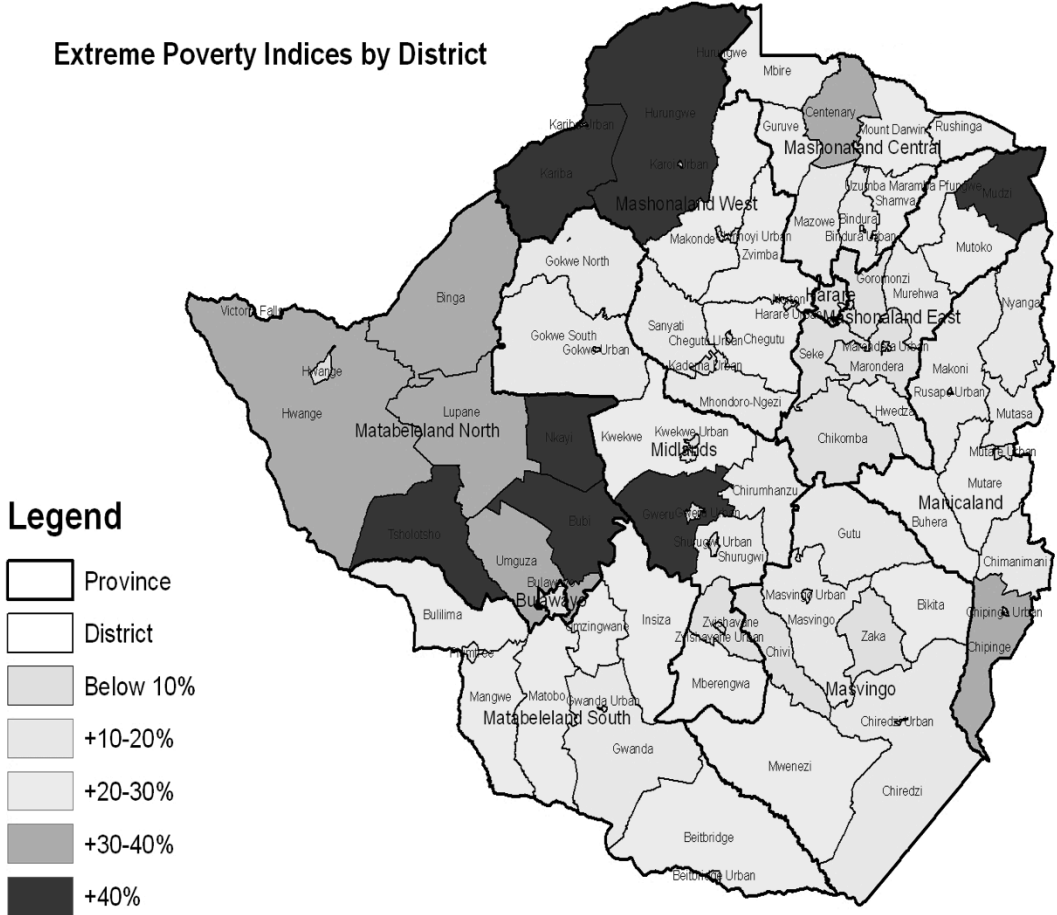


Poverty and Extreme Poverty are still widespread

Poverty and Extreme Poverty (percent of population)

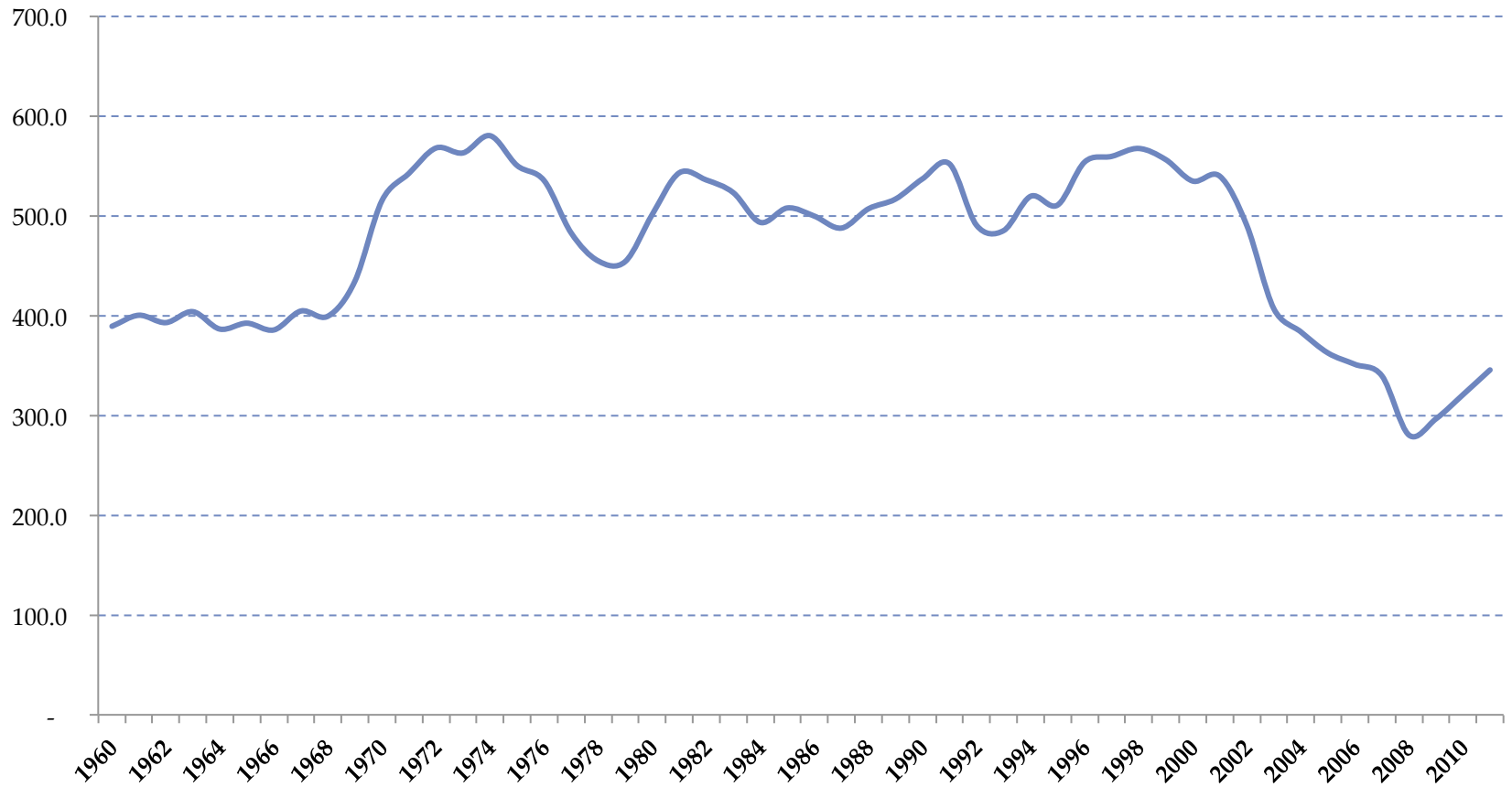


Extreme Poverty Indices by District



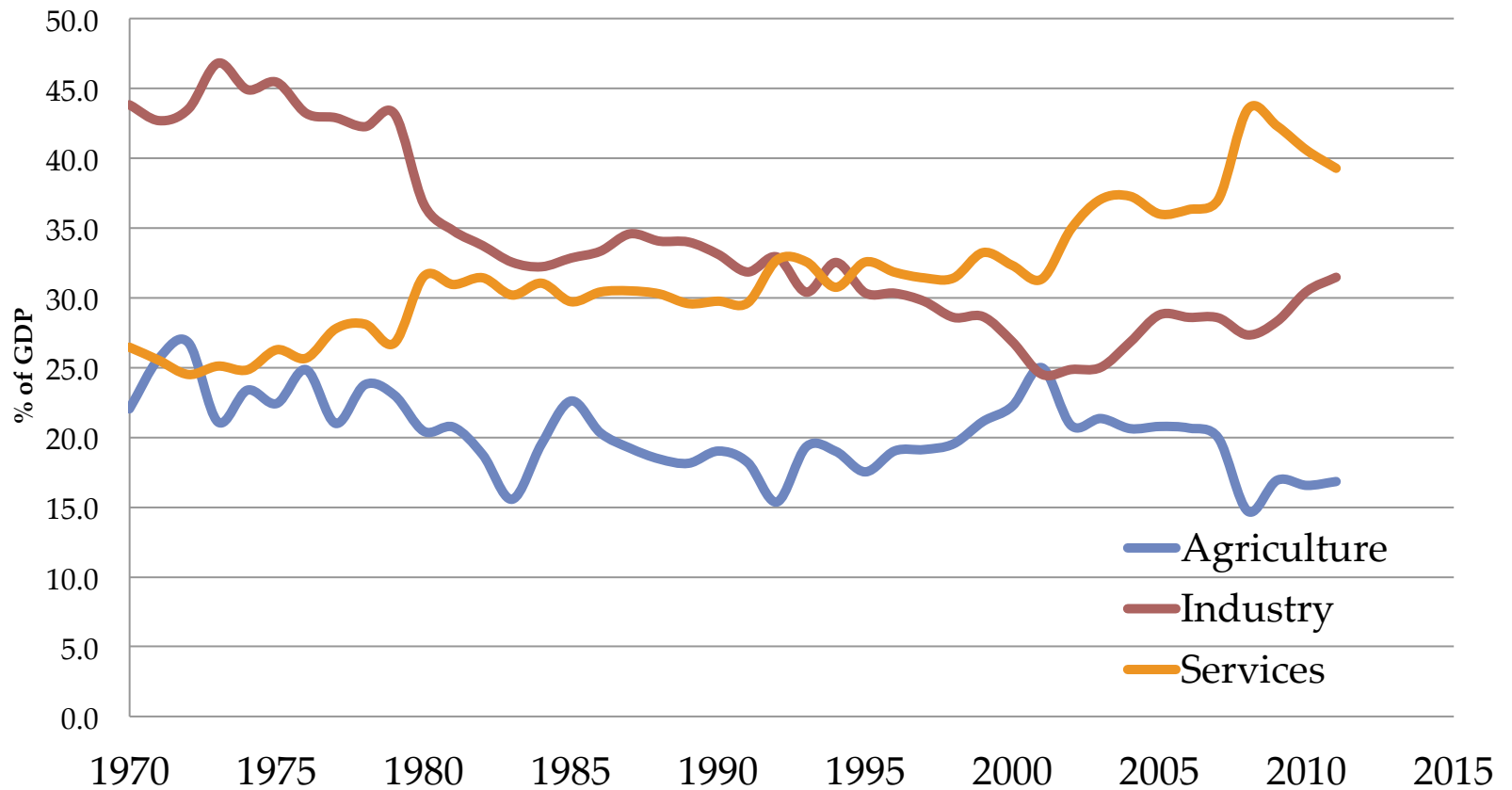
Source: ZIMSTAT, PICES 2011-2012

GDP per capita has long stagnated

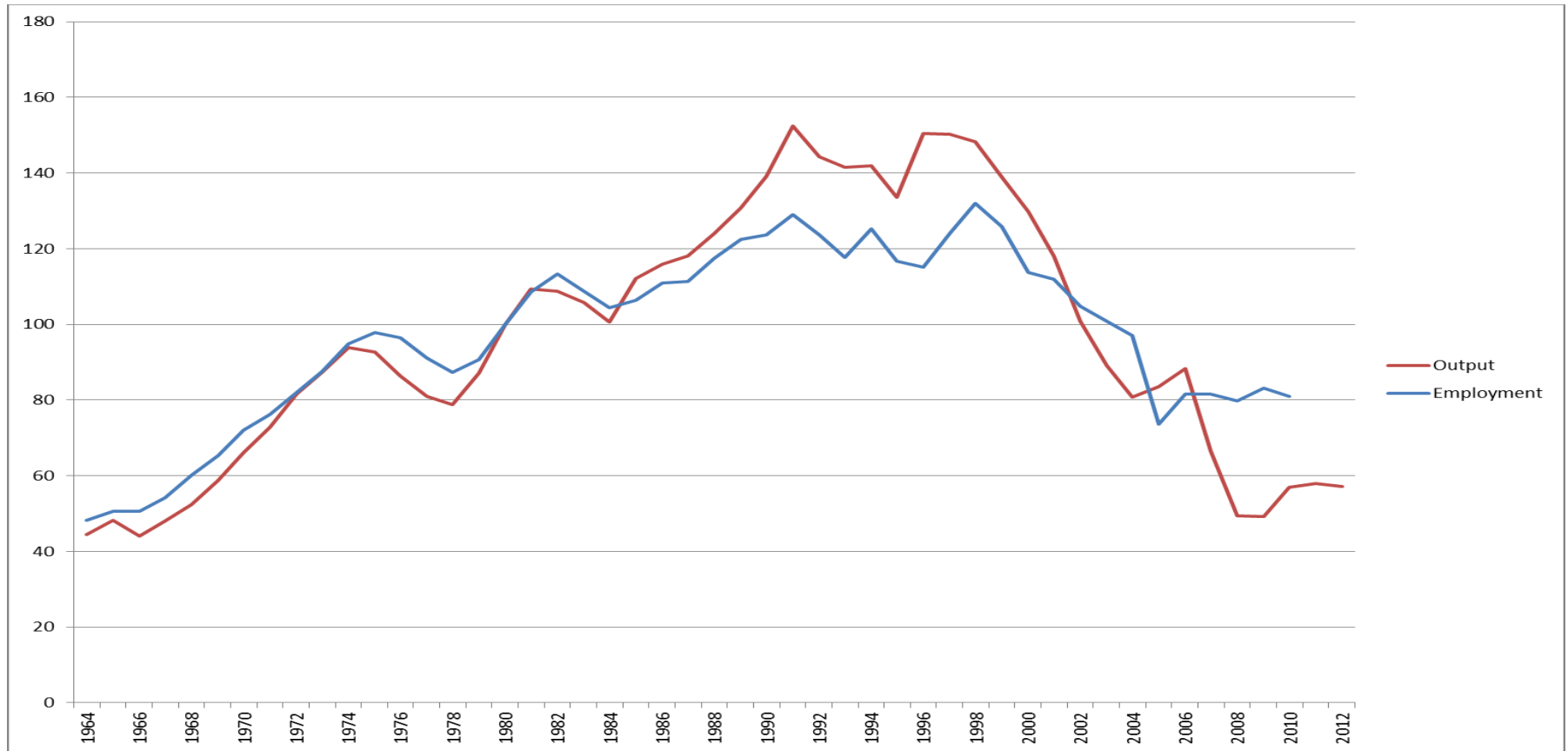


Restarting the Process of Economic Transformation

Stagnation of process of structural change started in the 1980s



There are long term issues in the manufacturing sector

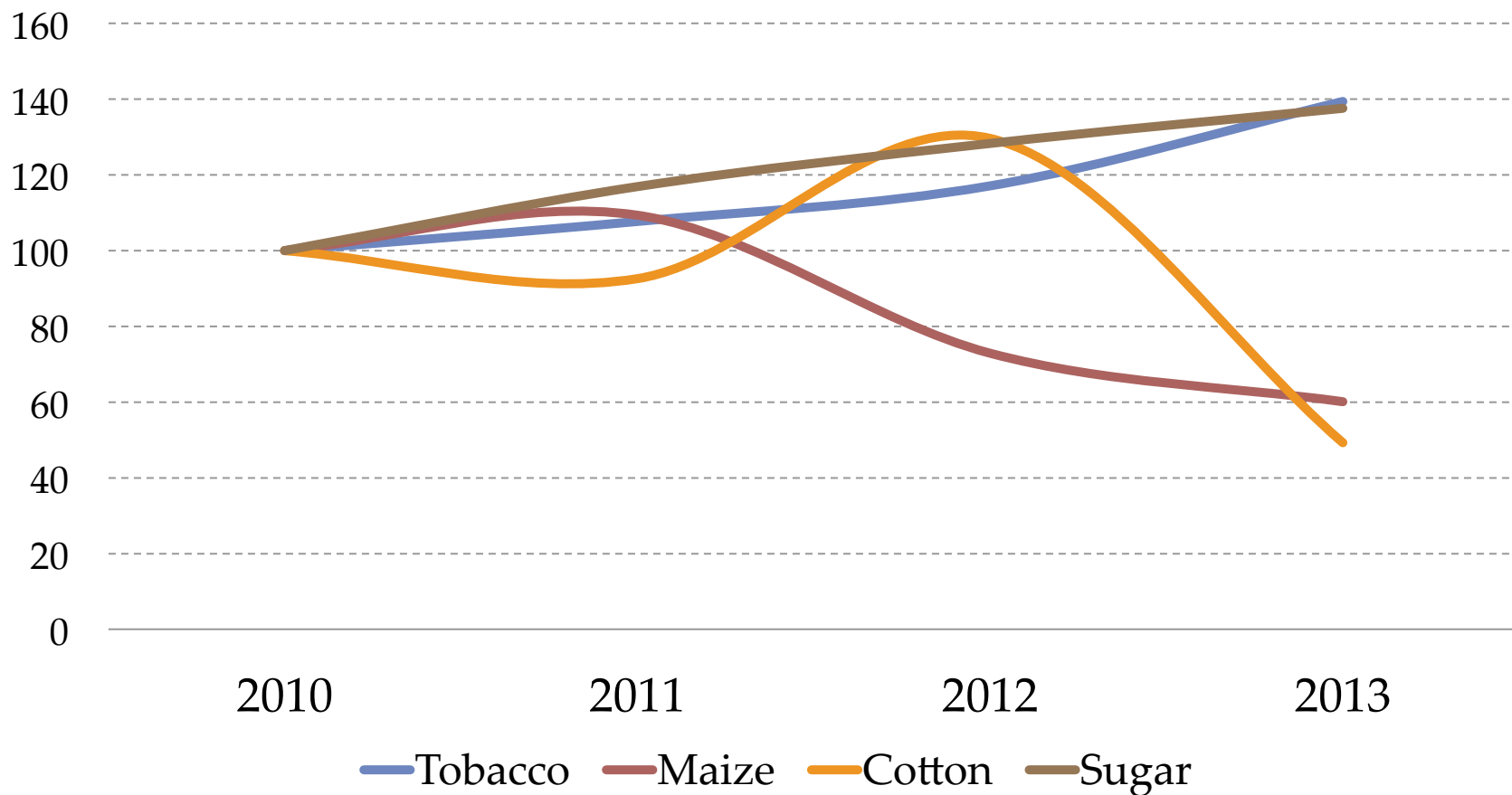


Manufacturing Sector

- Zimbabwe Industrial Model, born out of imports-substitution policies, run out of steam well before 2001-2008 crisis
- Liberalization of imports has increased stress on firms created through import-substitution policies, while export-oriented firms may not be mature enough to vigorously react to liberalization.
- Most firms remain stressed, and largely focused on the domestic market.
- Suffering more from supply-side than demand-side constraints to capacity utilization-(Enterprise survey, 2011)
- Short-term stresses may compromise “re-manufacturing Zimbabwe”.

The new agricultural sector is still vulnerable

Index of Agricultural Production - 2010=100

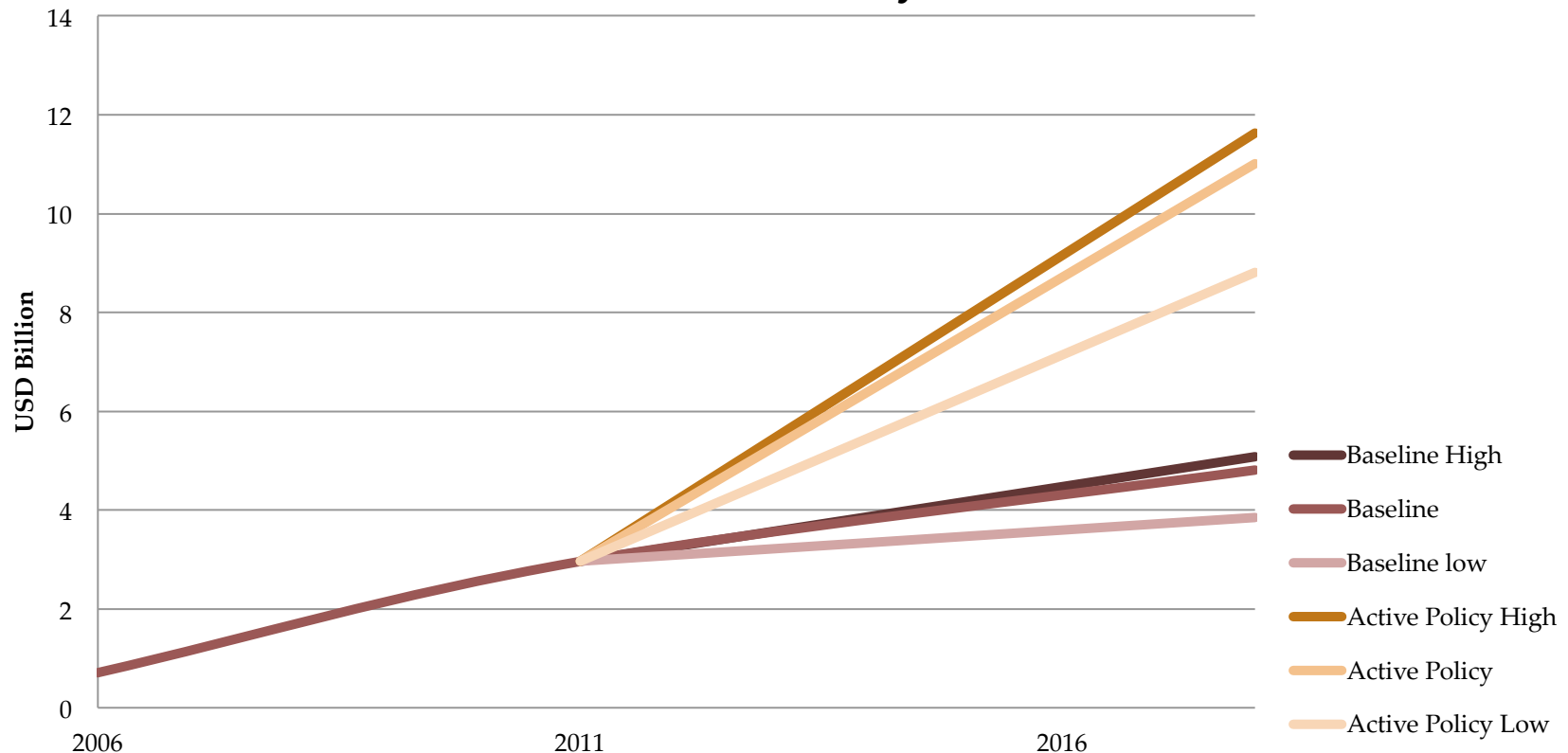


Agriculture sector...prospects

- The sector has potential for rapid recovery, long term growth and employment generation and transition to rapid agricultural growth if the current “super-cycle” of international prices continues.
- The new small-holder sector requires temporary stronger support to unlock its potential
- Production remains constrained by the need to adapt to the new production structure and finance the necessary investments in a context of still very low domestic savings.

Mining sector – Can it be the driver? 2018 scenarios

Survey of Mining production Potential (existing projects) -
2018 - Baseline and Active Policy Scenarios (USD bn)



Source: World Bank (2012), Data from: McMahon et al.

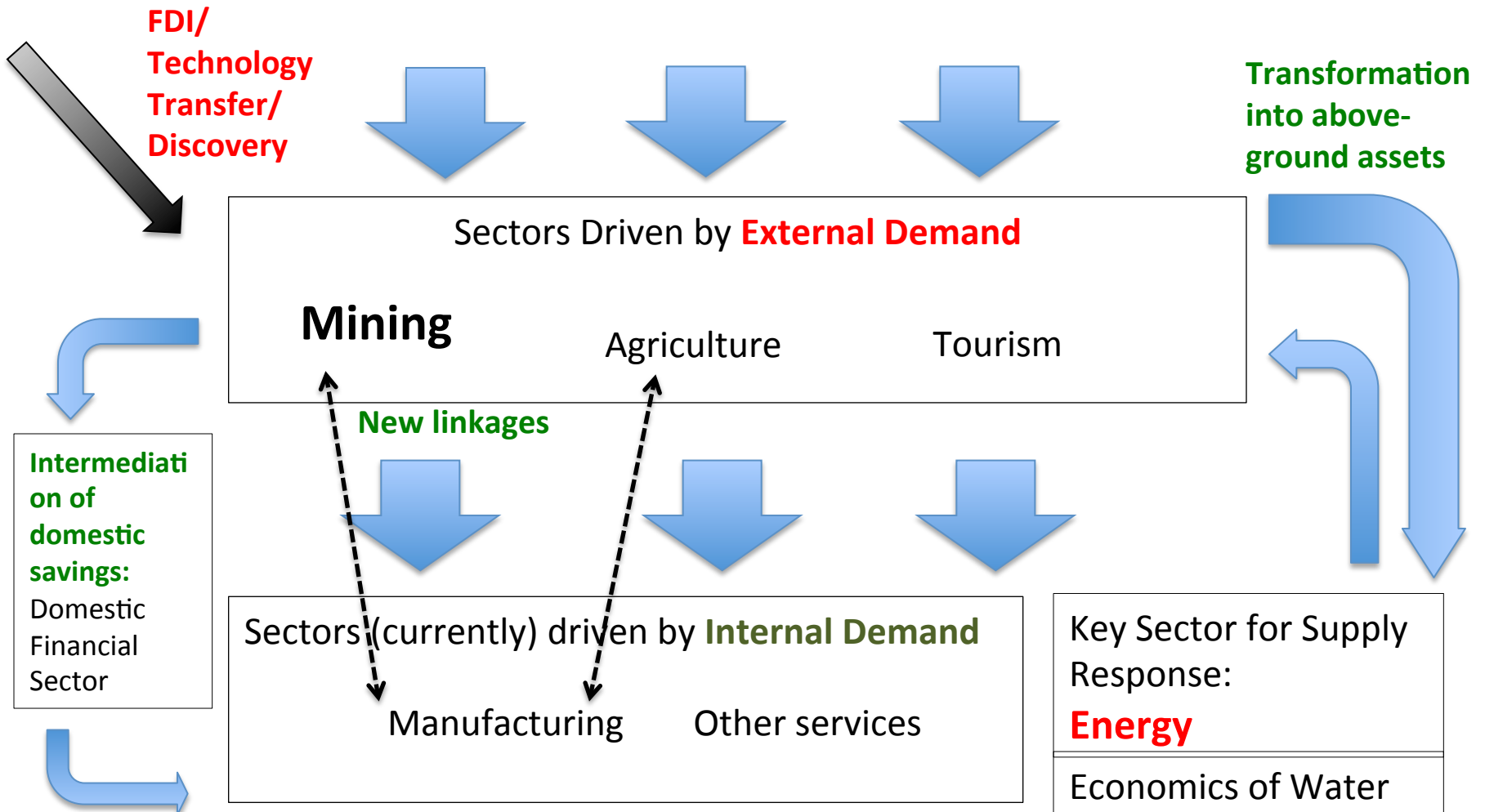
Assumptions: High: 2011 average prices; Mid: July 2012 prices; Low: - 20 percent

Mining sector: driving power is subdued...

- In the baseline scenario we project max USD 5 billion investment by 2018. Most of production volume would expand in gold and coal. New 5000 jobs created.
- In the active policy scenario, investment could reach USD 15bn, with 30,000 jobs created. Iron, Gold, Coal and Chrome have the higher potential of absorbing new investment.
- Given lack of exploration in mining, infrastructure weakness, and current persisting uncertainty, there might be no major increase in activity in the medium run.

Rebuilding the Linkages

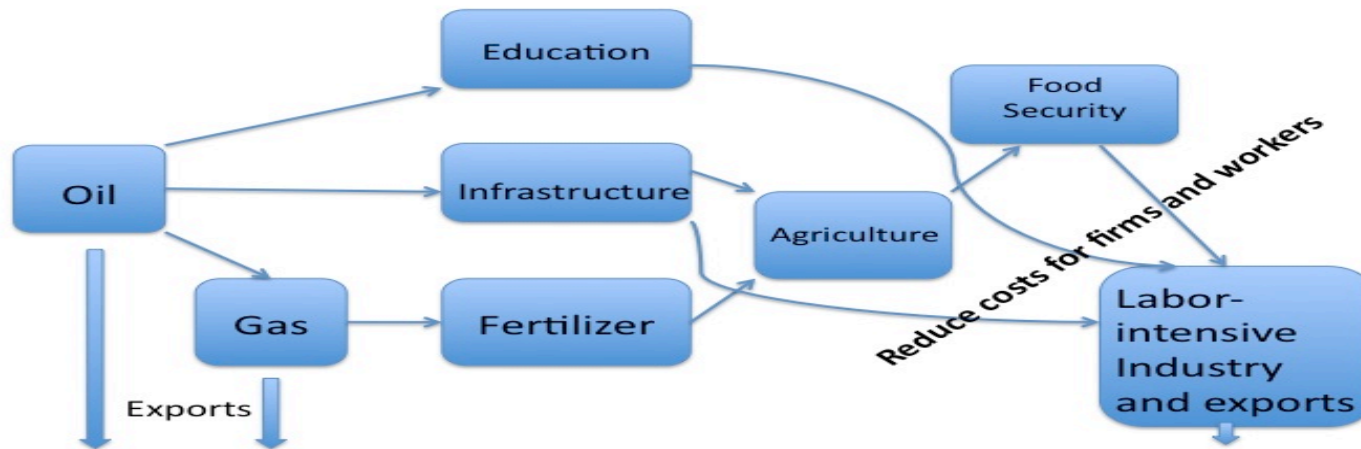
Mining Sector Linkages to the Overall Economic System



Country Examples: Indonesia

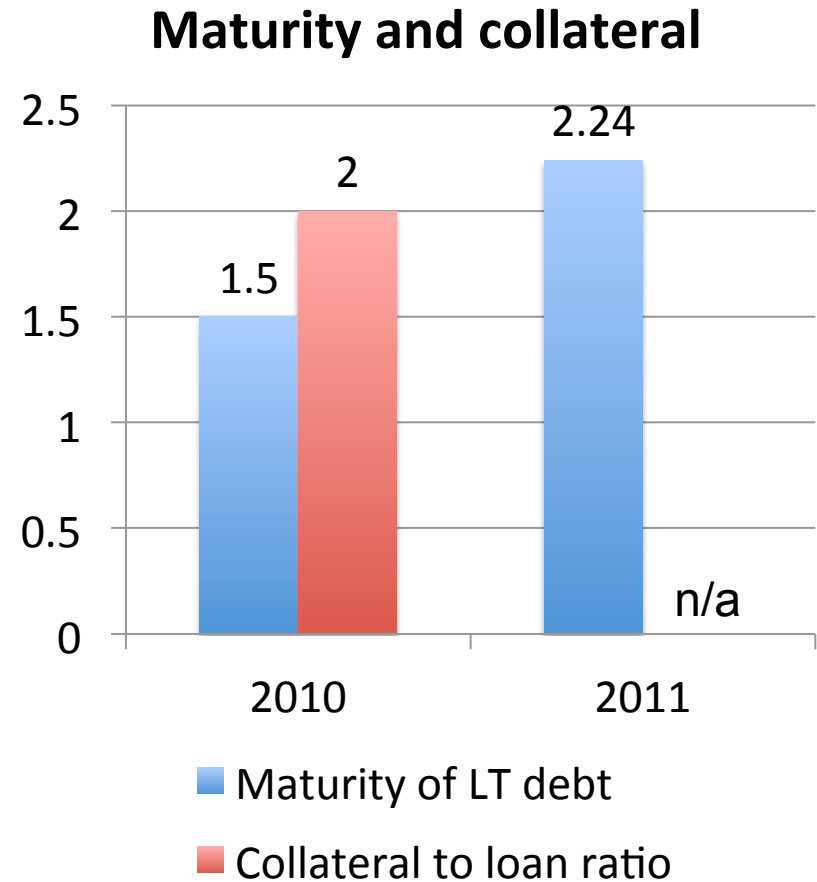
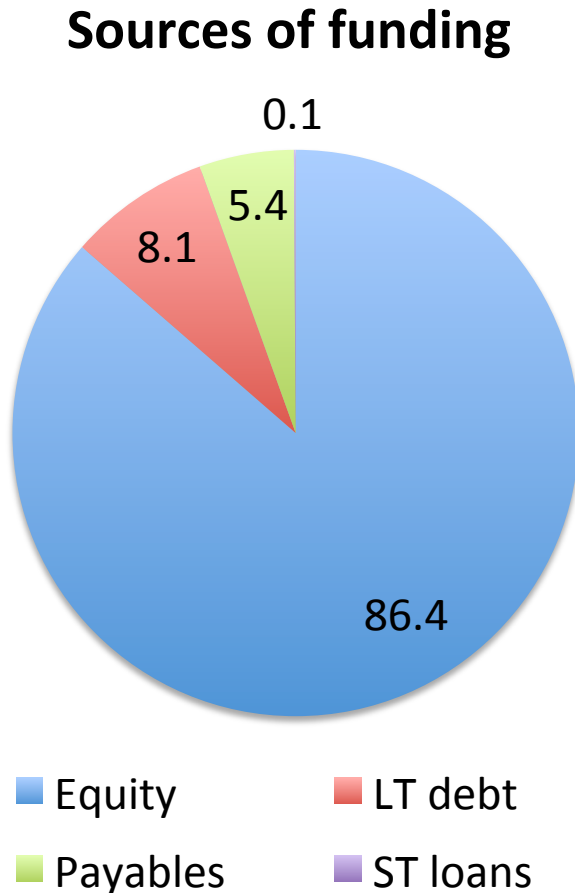
- Resources rents were used to **support agriculture, infrastructure and reducing costs for the industrial sector** and encouraging

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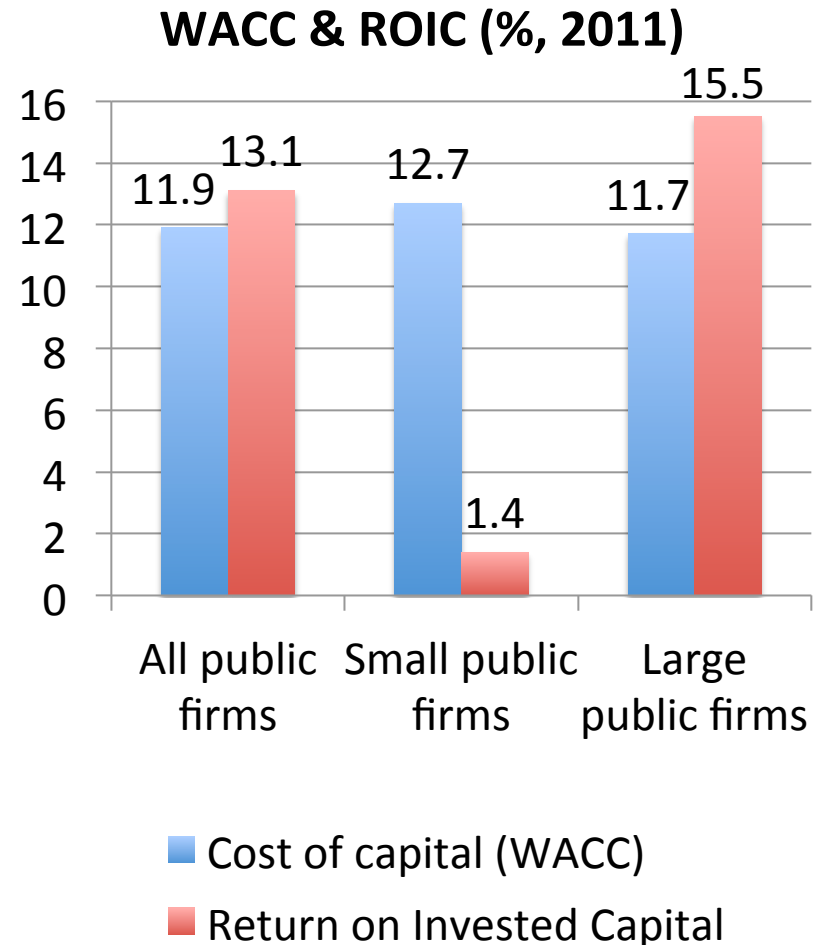
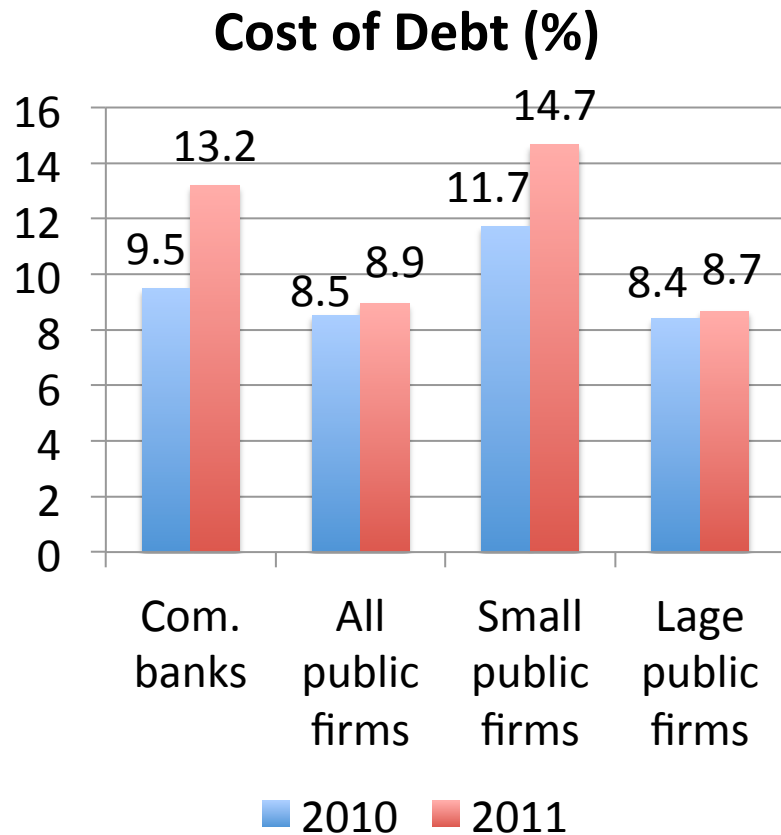


Re-integrating regional and global financial markets

Equity funds most private investments, while loans are short-term and require high collateral

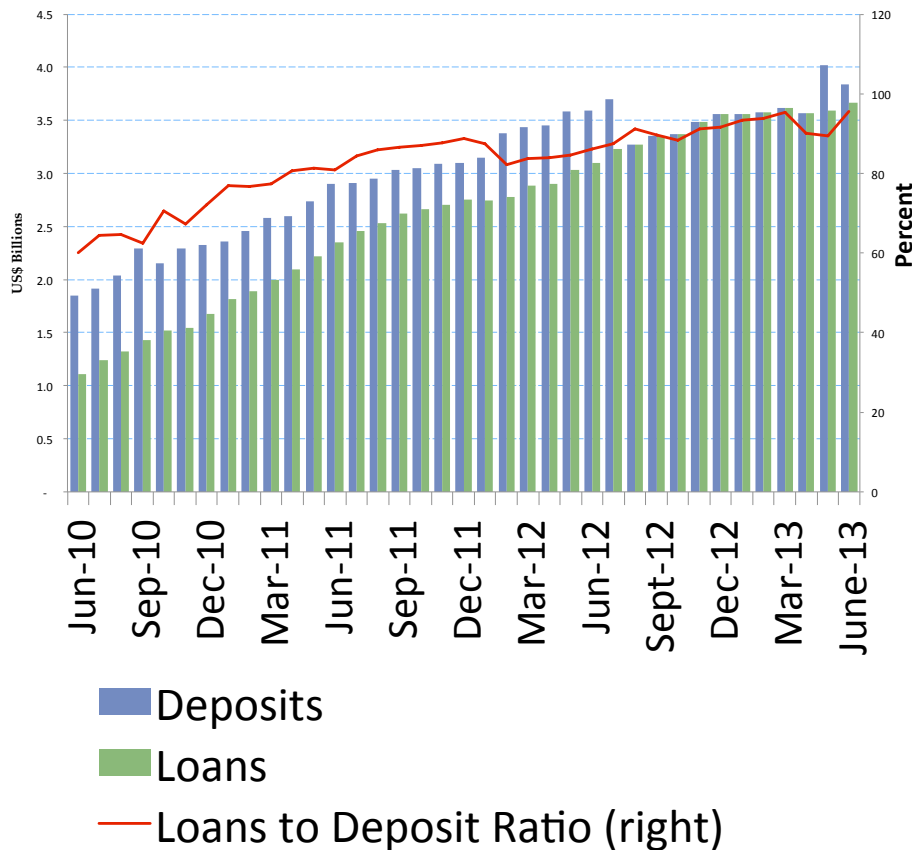


Cost of capital is high, and exceeds return on capital for small (public) firms

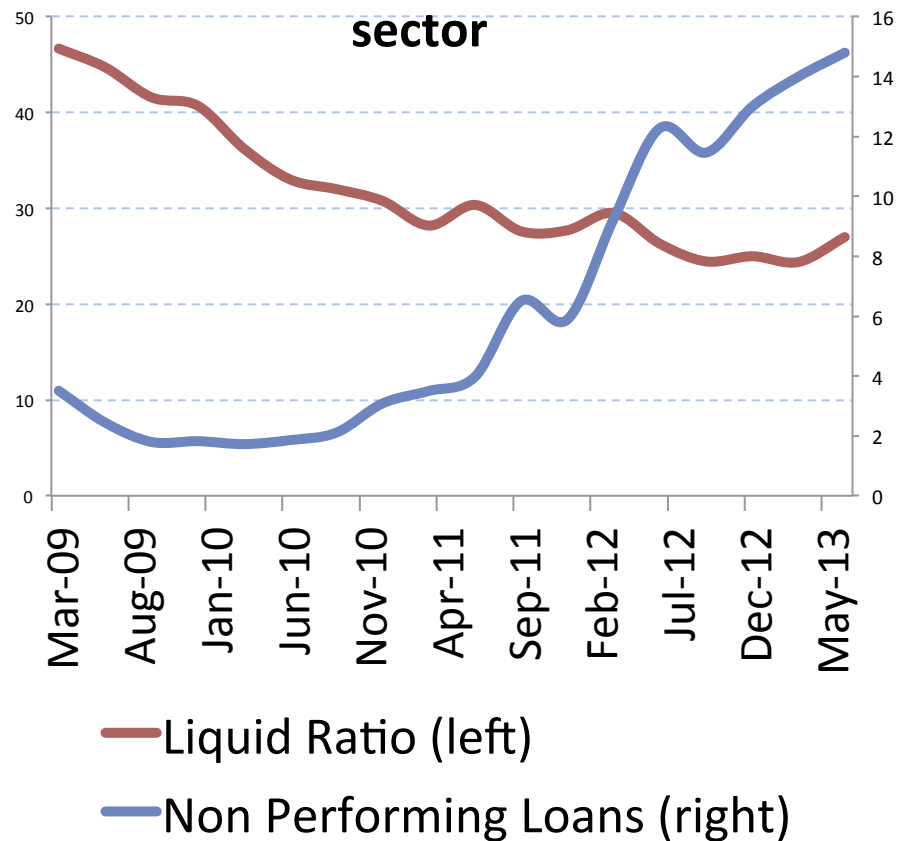


... Domestic credit conditions are further tightening...

Deposits, Loans and loans to deposit ratio



Non-performing loans and liquidity ratio in the banking sector



Infrastructural investments needs in the next two decades are above US\$ 33 billion

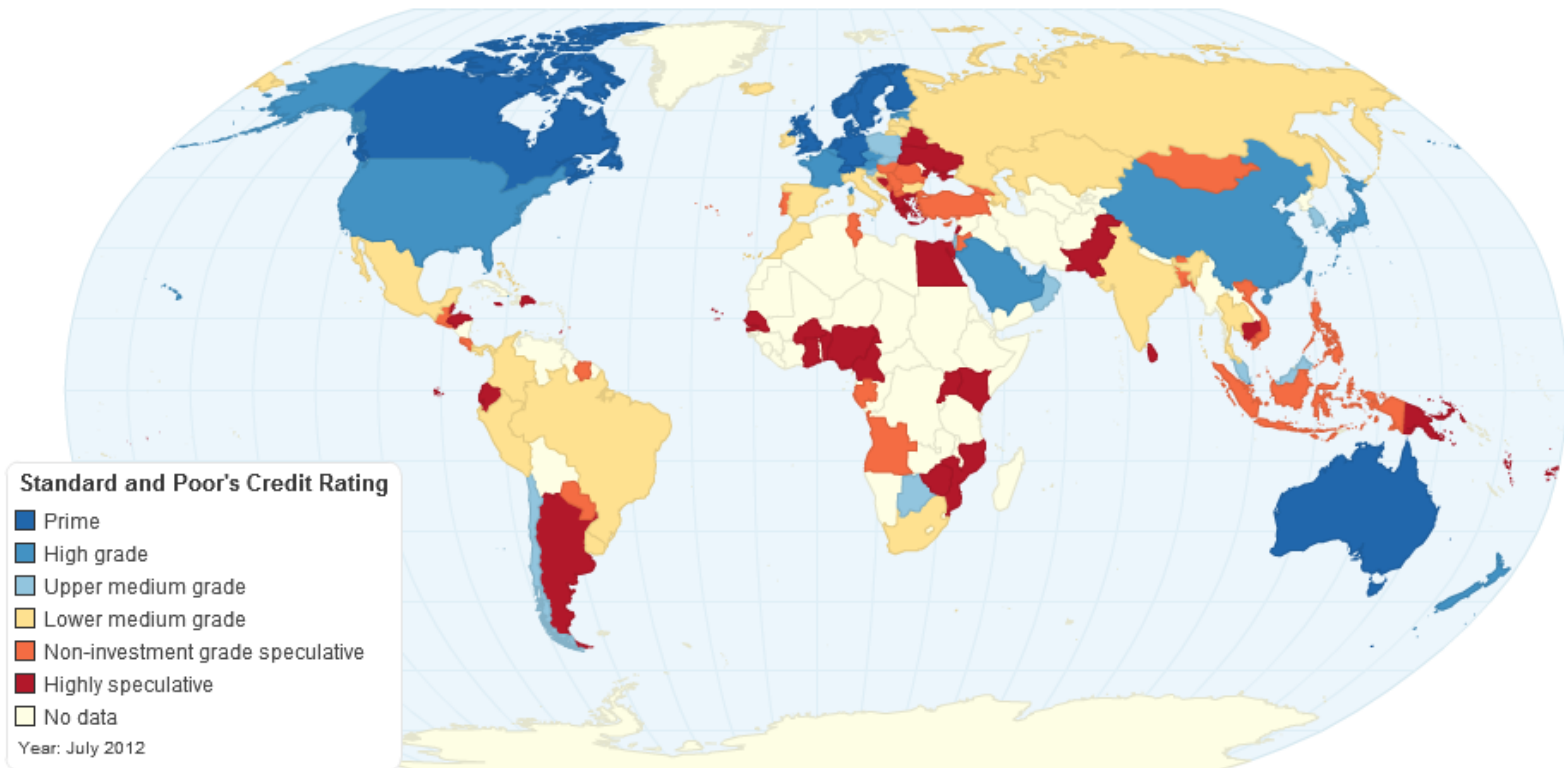
	Electricity		Water/Sanitation		Transportation		Telecoms	
	Level (USD)	Growth (%)	Level (USD)	Growth (%)	Level (USD)	Growth (%)	Level (USD)	Growth (%)
Low income								
Malawi	2,198	7.9	3,309	3.9	2,100	1.3	15,102	6.2
Zimbabwe	11,304	6.2	1,811	1.6	13,399	1.3	6,752	-0.2
Lower-middle income								
Angola	2,948	6.1	4,316	2.7	13,451	2.0	19,906	4.1
Lesotho	144	4.9	307	0.3	1,554	2.0	1,066	2.8
Swaziland	623	4.9	155	0.6	902	2.0	1,193	3.5
Zambia	7,597	7.6	3,737	4.6	17,466	2.0	13,133	6.9
Upper-middle income								
Botswana	1,146	3.8	230	-1.2	6,079	2.0	1,661	-1.9
Namibia	1,603	4.6	469	0.9	9,126	2.0	2,915	3.8
South Africa	69,959	4.0	3,504	-0.7	94,705	2.0	43,049	-2.5
Sub-Saharan Africa	178,282	5.5	97,395	3.2	197,933	1.7	508,621	5.1

Total infrastructure investment and compound annual growth rates, by major infrastructure subsector, 2011–30, Zimbabwe and selected comparator countries

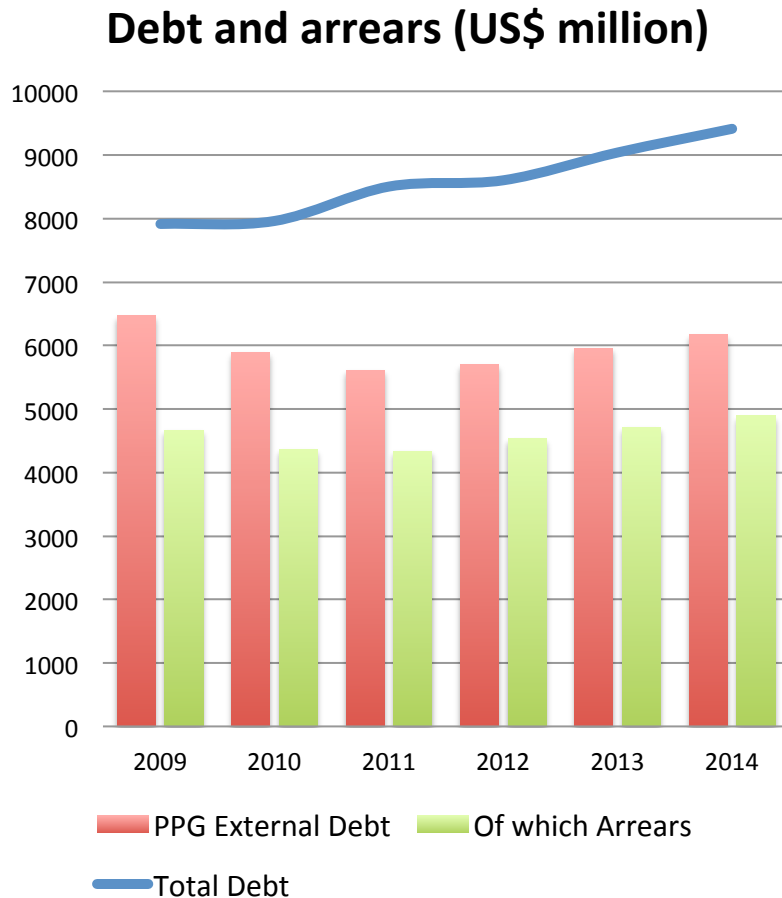
Source: World Bank staff calculations.

... but access to financial markets is still limited and costly

Standard & Poor's Credit Rating for each country



... while Zimbabwe remains in debt distress...

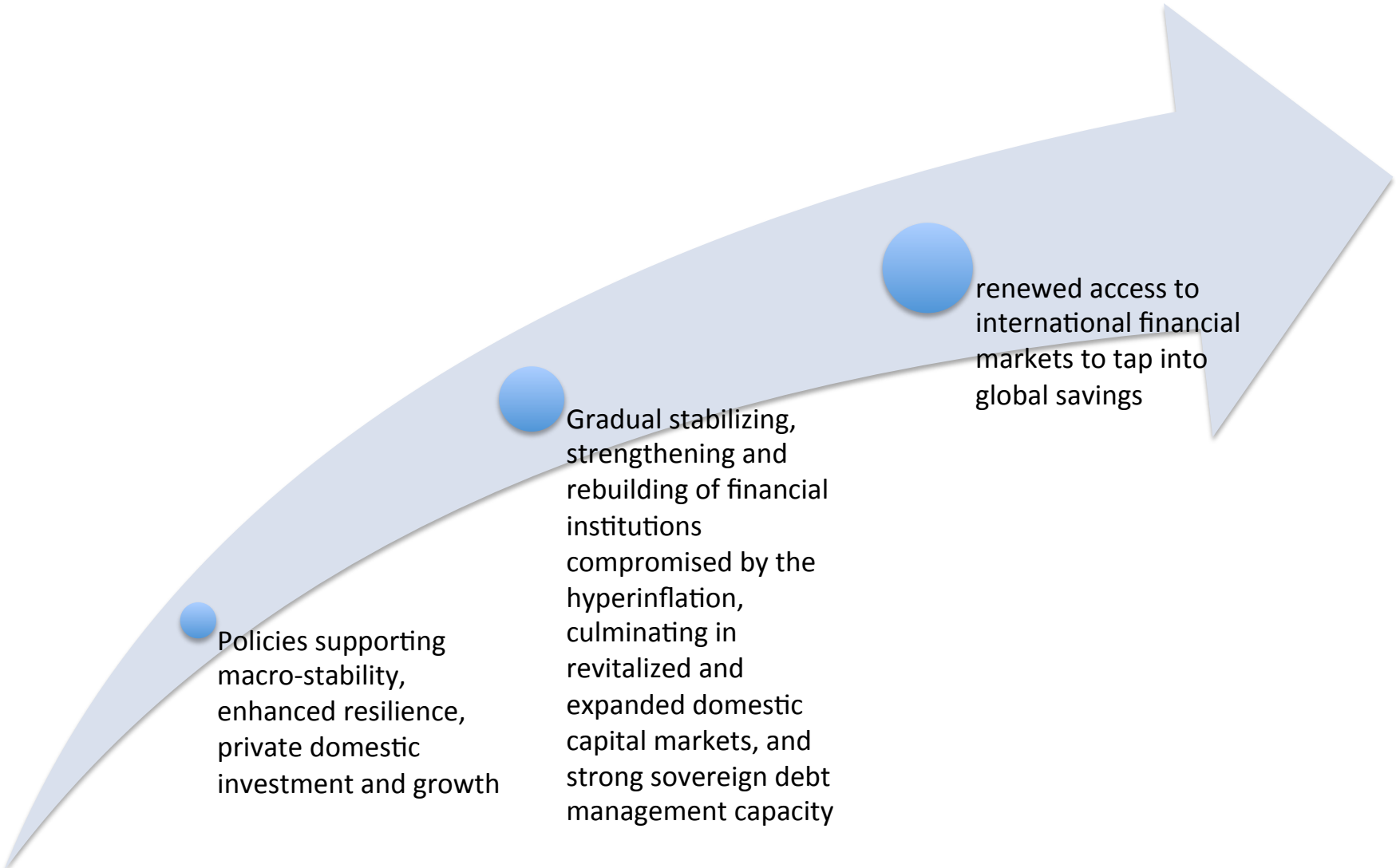


- The external arrears continue to stifle economic growth by limiting the country's access to new financing.
- Zimbabwe's arrears to the IFIs amounts to US\$1,709 (as of May 2013)

Limited venues for financing for investment

- Zimbabwe has historically relied on a combination of government bond financing alongside loans from international financial institutions (IFIs) to finance its infrastructure projects.
- However, in the aftermath of hyperinflation, the absence of a government bond market and outstanding arrears with IFIs have limited venues for financing
- There is an increasing reliance on financing from major emerging economies, either in the form of non-concessional bilateral loans, or arrangements with private corporations.
- in recent years, infrastructure financing has moved toward a greater reliance on structured financing, especially bond issuance. If bond-based financing recovers, it is likely that Sub-Saharan Africa's infrastructure needs will be increasingly met by infrastructure-sector bond issuance with private sector take-up, and even private sector administration of infrastructure service fees.

Pillars for strengthening long-run level of financial development



Policies supporting macro-stability, enhanced resilience, private domestic investment and growth

Gradual stabilizing, strengthening and rebuilding of financial institutions compromised by the hyperinflation, culminating in revitalized and expanded domestic capital markets, and strong sovereign debt management capacity

renewed access to international financial markets to tap into global savings