

**‘A synopsis of the Zimbabwean
Economic, Socio-Political
Landscape – 2016; Its Implications
for Business’**

March 2016

OUTLINE

1. State Of The Economy & Outlook

2. Key Monetary Policy Issues & Significance

3. Growth Influencers & Outlook

**4. Implications For Businesses & Possible Strategic
Considerations**

1. State of the Economy

1.1 Political Environment

- The political environment remains peaceful. However, there has been increased incidents of intraparty fighting within the major political parties. The infighting could potentially hurt economic performance.

Significance: factional struggles within the major political parties might divert energy and attention from the country's development agenda and thus potential investors could adopt a wait – and – see approach. FDI flows are likely to remain constrained.

1.2 Re-engagement efforts are ongoing. However, there is a high probability that the Government might be constrained in honoring its pledge to settle or reschedule the debts owed to preferred creditors such as IMF (USD140 mil), World Bank (USD 1.5 billion) and Africa Development Bank (USD 600 mil) due to competing obligations including mobilizing resources to mitigate drought effects.

Significance: resolution of the external arrears was viewed as one of the key game changer towards unlocking of the country's economic growth potential and hence the prospects of sustainable economic growth could be constrained.

1. State of the Economy..... cont'd

1.3 Real Sector Performance

a.GDP: Growth is projected at under 0.5% during 2016 due to the following:

i. Agriculture: The Government has declared the 2015/6 Agric season State of Emergency due to the El Nino conditions. According to the results of the preliminary Crop Assessment report being compiled by the Government and other farmer organizations, tobacco output is projected to decline by up to 20% and maize (up to 50%). In 2016 alone, the country is projected to import cereals amounting to USD 500 million to cover the food deficit.

- Other perennial challenges including low irrigation capacity, adequate funding and limited fiscal space to support small scale farmers remain unresolved.

ii. Manufacturing: Average capacity utilization declined from 39.6% in 2013 to 32% by June 2015. This was mainly attributed to capital constraints, increased competition from imports and low internal demand (Source: CZI Manufacturing sector survey, 2015).

Prognosis for 2016 : In 2016, the challenges are likely to worsen due to the usage of an appreciating USD and more companies are struggling to remain competitive.

1. State of the Economy..... cont'd

iii. Mining: Depressed international mineral prices resulted in low mining export receipts in 2015. Value of minerals declined by 9% to USD 1.8 billion in 2015 due to a combination of low prices and output.

Prognosis for 2016: In 2016, the IMF projects commodity prices to further decline due to the sluggish growth of the Chinese economy (slowing down base metals) and the strengthening USD (impacting precious metals). The Chamber of Mines also alluded that the high operating costs continue to constrain growth in the sector.

iv. Production infrastructure: Constraints including persistent power outages, obsolete plant & machinery, failing water systems continue to inhibit economic growth. According to the World Bank reports, the economy requires in excess of USD 10 billion to expand and rehabilitate its infrastructure requirements.

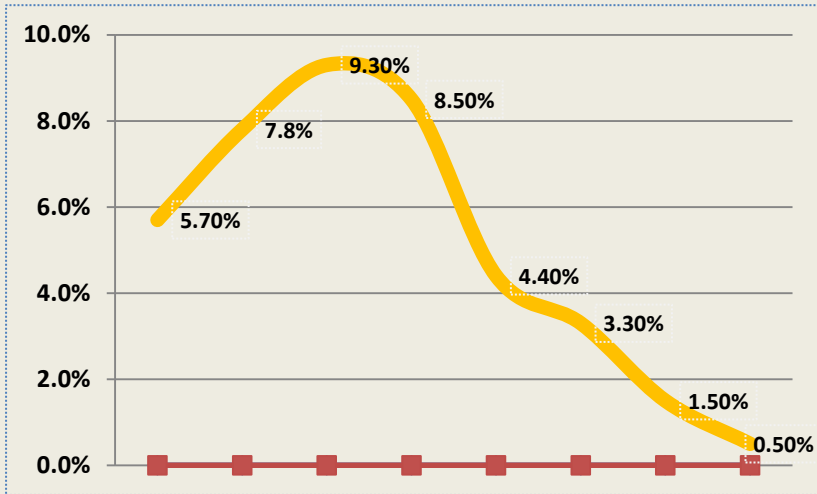
Prognosis for 2016: Our view is that the Public Private Partnerships deals will continue to trickle in the outlook period.

iv. Foreign Capital Flows: Constraints in domestic liquidity requires the economy to mobilize huge external funding (including FDI's, portfolios investments and external lines of credit) to close the funding gap.

Prognosis for 2016: The continued loss of value on the Zimbabwe Stock Exchange and the recent closure of diamond mines though noble, it might be construed differently by potential investors

1. State of the Economy..... cont'd

Fig 1: Gross Domestic Product (%): 2009 - 2016



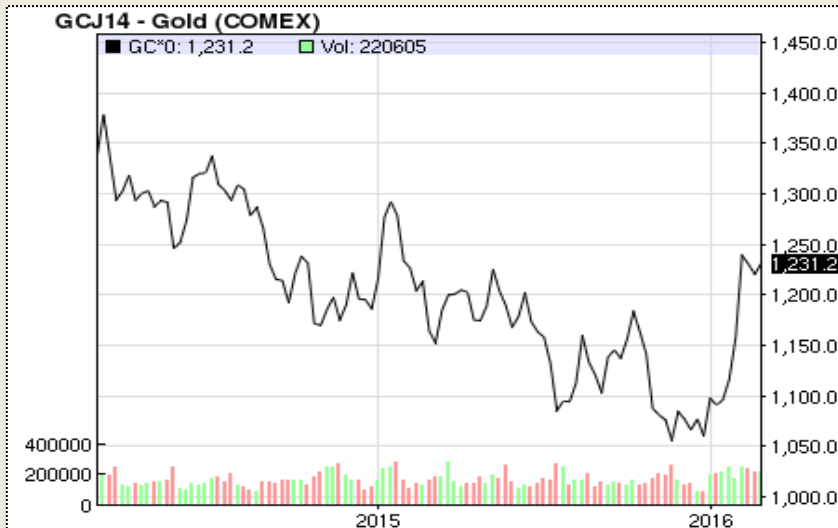
Source: MoF, IMF, 2015

Table 1: Agriculture Output (000 MT)

	2014	2015	2016	2016/15 % Change
Maize	1460	750	400	-46.7%
Tobacco	216	198	165-170	-15.4%
Soybean	84.7	58	35	-39.7%
Cotton	114	68	40	-41.2%
Groundnuts	88.9	135	100	-25.9%
Citrus	216	180	150	-16.7%

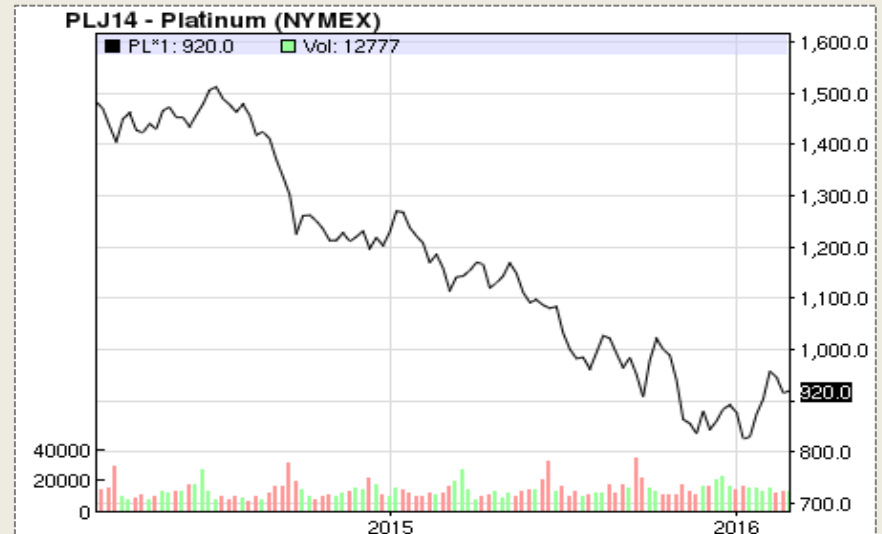
Source: Ministry of Agriculture and various Farmers Organizations, TIMB, 2016

Fig 2: Gold Price Trend: 2015 – Feb 2016



Source: World Bank, IMF

Fig 3: Platinum Price Trend: 2015 – Feb 2016



Source: World Bank, IMF

1. State of the Economy..... cont'd

1.4 Monetary Sector Performance

Table 2: Monetary Sector Variables

	Dec 2014	Dec 2015	Feb 2016
INFLATION			
▪ Annual	-0.80%	-2.47%	-2.19%
▪ Monthly	-0.09%	-0.1%	-0.1%
MONEY SUPPLY			
• M3(\$ million)	4403	4765	4750
• M3 (annual growth)	11.97%	8.2%	5.1%
• Loan/Deposit Ratio (Total loans/M3)	99.4%	117%	115%
• Government Borrowings (\$ million)	515	1590	1650
• Non Performing Loans Ratio	15.92%	15%	15%
STOCK MARKET			
• Industrial Index	162.8	115.1	99.11
• Mining Index	71.7	23.5	18.74
• Market Cap (\$ mil)	4619	3079	2684
INTEREST RATES			
• Average Lending Rates to Corporates	9.8%	7.57%	7.57%
• Average Lending Rates to Individuals	14.3%	12.0%	12.0%
• Nominal Lending Rates	6 -35%	6-16%	6-16%
• Deposit Rates (Savings)	0.15 - 8%	0.15% - 8%	0.15% - 8%
• Deposits Rates (3 months fixed)	1 - 20%	0.75 - 17%	0.75 - 17%

Inflation Prognosis for 2016:

Gradually rising due to food pressures. However, a weaker ZAR will help in easing inflationary pressures.

Money Supply Prognosis –

Slowing down due to the envisaged deterioration of the Balance of Payments Position In 2016 as the economy gears to import more food.

Stock Market – ZSE was the worst performing bourse in Sub Sahara Africa in 2015 thus making it less attractive to investors.

Interest Rates – lending rates are likely to remain stagnant at the current levels set by the Reserve Bank.

1. State of the Economy..... cont'd

1.5 Public Sector Performance : *Selected Indicators*

USD million	2014 (act)	2015 (act)	2016 (proj)
Nominal GDP	13560	13782	13,851
Revenues & Grants	3721	3523	3850
% of GDP	27.4%	25.6%	27.8%
Expenditures & Net Lending	4085	4000	4200
% of GDP	30.1%	29.0%	30.32%
Recurrent Expenditure	3634	3650	3650
% of GDP	26.80%	26.48%	26.35%

- a.Revenues:** Cumulative to December 2015, total revenues amounted USD 3.5 billion against a target of USD 3.7 billion. In the outlook to 2016, revenues are likely to continue declining due to the deterioration in the operating environment and the increased informalisation of the economy.
- b.Expenditures:** Total expenditures amounted to USD 4.0 billion against a target of USD 4.1 billion. The USD 500 million deficit was financed by TB issuance, bank borrowings and accumulation of arrears. Expenditure pressures are projected to worsen in 2016 as a result of the increased food imports funding pressures to avert hunger.
- c. Ballooning Government Debt:** In 2015 alone, total Government borrowing requirements increased three fold, rising to USD 1.56 billion by December 2015. The debt could potentially rise in 2016 as the Government seek resources to avert hunger.

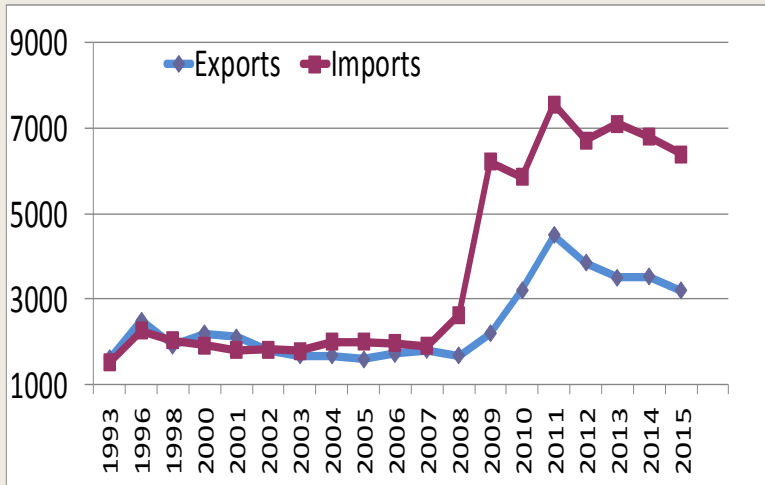
1. State of the Economy..... cont'd

1.6 External Sector Performance

- a. **Trade:** During 2015, total exports declined 9% to USD 3.2 billion compared to 2014. During the same period, imports were USD 6.4 billion, compared to US\$6.8 billion in 2014.
 - b. **Trade Deficit:** The trade deficit was above 23.3% of GDP, compared to international benchmarks of under 5%.
 - c. **International reserves:** The BOP position is not supported by international reserves. The country's usable reserves are estimated at USD 250million or 2 weeks import cover. This is unsustainable low compared to international acceptable levels of at least 3 months.
 - d. **External Debt:** Key creditors to Zimbabwe include; World Bank (\$1.4bn), Paris Club (\$4.2bn), AfDB (\$500m), China (\$350m), and IMF (\$142m). Total Public external debt stands at \$8.9bn, with \$5.6bn being payments arrears. Zimbabwe private sector owes a total \$1.9 bn (the debt is current).
- The Government could potentially fail to execute its proposed external arrears clearance plan in 2016 due to additional pressures for resources to import food.

1. State of the Economy..... cont'd

(a) Export & Import Performance: USD Millions



(b) Selected BOP Summary Items

Selected Balance of Payments Position Items (US\$ mil)				
	2012	2013	2014	2015
	Actual	Actual	Actual	Est.
CURRENT ACCOUNT (excl.official transfers)	-3042	-3432	-2837	-2595
TRADE BAL f.o.b	-2902	-3114	-2748	-2881
of which Exports f.o.b	3808	3694	3558	3430
of which Imports f.o.b	-6710	-6808	-6306	-6311
CAPITAL ACCOUNT (Incl. Official Transfers)	1721	2723	2919	2453
of which Direct Investment (Net)	400	334	400	400
Errors and omissions	897	515	-212	0
Overall Balance	-424	-194	-130	-142

(c) External Debt Distribution: USD million

	2013	201
Long Term Debt		
• Public Sector	6368	6183
• Private Sector	1002	2261
• Monetary Authorities	12.5	12.5
Short Term Debt		
• Private Sector	950	1807
• Reserve Bank	614	587
Total External Debt	8934	10838

2. Key MPS Highlights & Significance

- **Prudential measures to curtail externalization of foreign currency:** introduced measures include the declassification of free funds, reporting of suspicious transactions before processing, strict enhanced customer due diligence, limitations on amount paid as management fees to parent company (max of 3% of gross income) and stiff penalties for non-compliant with the above measures.
- **Significance:** The above measures have significantly changed the banking culture and processes. These measure also need to be complimented robust external liquidity mobilisation measures e.g. more exports, external lines of credit, FDI flows so as to significantly improve the liquidity situation.
- **Measures to Improve Liquidity and Minimize Payment Gridlocks** – in an effort to improve the current liquidity situation, in which banks are failing to adequately satisfy international payments for customers, the RBZ increased the Nostro limit from 5% to 10%. Other measures to improve the liquidity situation include raising the single investor's limit per counter on the Zimbabwe Stock Market from 10% to 15%, limit of foreign shareholders per counter increased from 40% to 49%, upward review of full fungibility status from 40% to 49% and the realignment on the cost of offshore loans to match the locally prevailing rates.
- **Significance** - The high trade deficit gap will continue to impact on liquidity mobilisation efforts.

2. Key MPS Highlights & Significance..... cont'd

- **Measures to Reduce Cost of Funding & Improve Productivity** - All-inclusive lending rate for productive lending not to exceed 15% p/year. Banking institutions are required to adequately disclose and communicate their effective lending rates and associated charges to borrowers in order to enhance consumer awareness.
- Banking institutions are also encouraged to focus their attention on MSMEs by developing and implementing SME specific lending models and policies. Banking institutions are required to set their annual target lending to SMEs categorised by gender, enterprise size and business sector among other variables, and submit their targets to the Reserve Bank by 31 March 2016.

Significance: The credit risk environment is still very high and thus banks are likely to continue pursuing cautious lending strategies. The perceived high country risk, makes it difficult for banks to mobilise cheaper funding i.e. external credit lines.

- **Measures to Enhance Gold & Diamond Production** – the Government is targeting increased productivity of the gold and diamond sectors through increased financial support and decriminalization of gold possession.

Significance –the readmission of Zimbabwe on to the Bullion Market will significantly improve revenues for the gold miners as intermediary costs will be eliminated. However, the recent closure/proposed consolidation of diamond mines though a noble policy, might be misunderstood and potentially scare away potential investors.

3. Growth Influencers & Triggers

AREA	TRIGGERS / SIGNALS
Political Developments	<ul style="list-style-type: none">•Elections, which have previously created uncertainty and anxiety and to some extent disrupt economic activity, are due in 2018. Factional struggles in the major political parties might divert energy and attention from the country's development agenda.
Indigenisation	<ul style="list-style-type: none">•This Act will remain an area of interest for many stakeholders, including investors. The new minister has provided implementation guidance through the Government Gazette of 8 January 2016, which requires 51% localisation in the resources sector e.g. mining. Other sectors are allowed to propose and negotiate for lesser than 51% equity thresholds. The Minister has also proposed a levy against non-compliant businesses.
External Debt resolution	<ul style="list-style-type: none">•Government has outlined an ambitious plan to clear external payments arrears with the multilateral creditors as a stepping stone towards full-fledged debt re-negotiations with all other external creditors. If this plan is executed successfully, Zimbabwe may see an improvement in her external credit ratings, which may allow private sector to enjoy better borrowing terms. It is not immediately apparent whether Government will be able to unlock fresh debt during 2016.•However, there is a chance that the Government may fail to deliver as more effort & resources are likely to be channelled towards drought mitigation measures.

3. Growth Influencers & Triggers

AREA	TRIGGERS / SIGNALS
Exports, Imports, FDI and BOP management	<ul style="list-style-type: none">•The Government has hiked import duty on goods which can be produced locally as well as those classified as non-essentials, but the capacity of the local producers to supply adequately is still to be proven. The country's exports are threatened by the relative strengthening of the US dollar. At the same time commodity prices are also unfavourable for mineral exports. FDI, external credit lines, are likely to remain low until the external debt issues and the investment policies are deemed conducive. The country should pursue a deliberate import substitution strategy and beneficiation of exports.
Currency Management	<ul style="list-style-type: none">•Concern is more about the relative strengthening of the US dollar, which is hurting export competitiveness. In the absence of devaluation as a policy tool, the country has to consider other less efficient means of restoring competitiveness like cost reduction. The other area of concern relates to the limited funding in Bank Nostros for facilitating critical external payments. This challenge is exacerbated by the fact that the scarce forex is spread thinly between domestic transactions (cash) and international trade (nostro). Previously domestic transactions would have been facilitated by local currency with forex being reserved for external payments.

3. Growth Influencers & Triggers

AREA	TRIGGERS / SIGNALS
Fiscal Discipline and Control	<ul style="list-style-type: none">• Staff costs account for 85% of total expenditure, which is counterproductive. Government is expected to make more interventions in social service delivery and public investment programmes. While Government has expressed intention to reduce the level of wages to 40% of the budget, actual concrete actions have not been spelt out and there is doubt on whether the country is ready for that drastic adjustment pain.
Infrastructure Development (power, transport, water, etc.)	<ul style="list-style-type: none">• There are concerns about obsolete production infrastructure in the industries. Availability of electricity, water and the transportation of goods have remained unreliable. While there are about 12 power projects being worked on, most of these investments in energy are only likely to yield results from 2017 and are expected to have little impact before then. Some investments in rehabilitation of roads and water systems may yield limited improvements during 2016.

4. Implications For Businesses & Possible Strategic Options

Challenge	Business strategic options
1. Depressed economic environment (weak domestic demand)	<ol style="list-style-type: none">1. Watch operating costs – most businesses would not be able to pass them on.2. Right size - to maintain viability, labour model.3. Manage interest payments - due to the scarcity of funding and the inherent risk in the business environment, the cost of borrowing is likely to remain high.
2. Product Mix	<ol style="list-style-type: none">1. Relevance of products, quality and tailor made products. Do your products meet evolving market expectations? Products to cater for growing informal sector?2. Shed off non essential or non-viable service lines,3. Cultivate customer loyalty
3. Foreign Exchange shortages	<ol style="list-style-type: none">1. Difficulties by banks in satisfying customers international payment requirements due to limited forex resources,2. Pressure from Government to import food to vulnerable groups of the economy.

4. Implications For Business & Possible Strategic Options cont'd

Challenge	Business strategic options
4. Optimum business model	<ol style="list-style-type: none">1. Diversification of product lines vs specialisation and streamlining of product lines,2. How do you improve productivity of your agency force, sales channels so as to maximise sales & profits.
5. Capital, risk, Investment Opportunities	<ol style="list-style-type: none">1. Optimum capital allocation. How are you balancing this given various constraints?2. Stock and property markets currently depressed,3. What other investment opportunities are available to your business?4. Is sovereignty debt any option? Many companies advanced TBs in – lieu of money owed by Government during the ZWD era are looking to liquidate the paper.
6. Business Synergies	<ol style="list-style-type: none">1. View your competitors as potential business partners. Sharing of risk where maybe the business opportunity is so huge.