**ZIMBABWE**

# 2017 ECONOMIC OUTLOOK

**FEBRUARY, 2017**

**MINISTRY OF MACROECONOMIC PLANNING AND INVESTMENT PROMOTION**

## INTRODUCTION

1. This economic outlook for 2017 comes against a background of above normal rainfall received across the country except Beitbridge which has below normal rainfall. It also comes against a strong drive by Government to increase foreign direct investment through measures such as the enactment of the Special Economic Zones Act in December 2016, as well as recent rebound of mineral prices on the international market. The agriculture and mining sectors are projected to underpin growth in the short to medium term. The projected economic growth rate for 2017 is still 1.7%.

2. However, some challenges have emerged which Government is currently addressing, these include:-

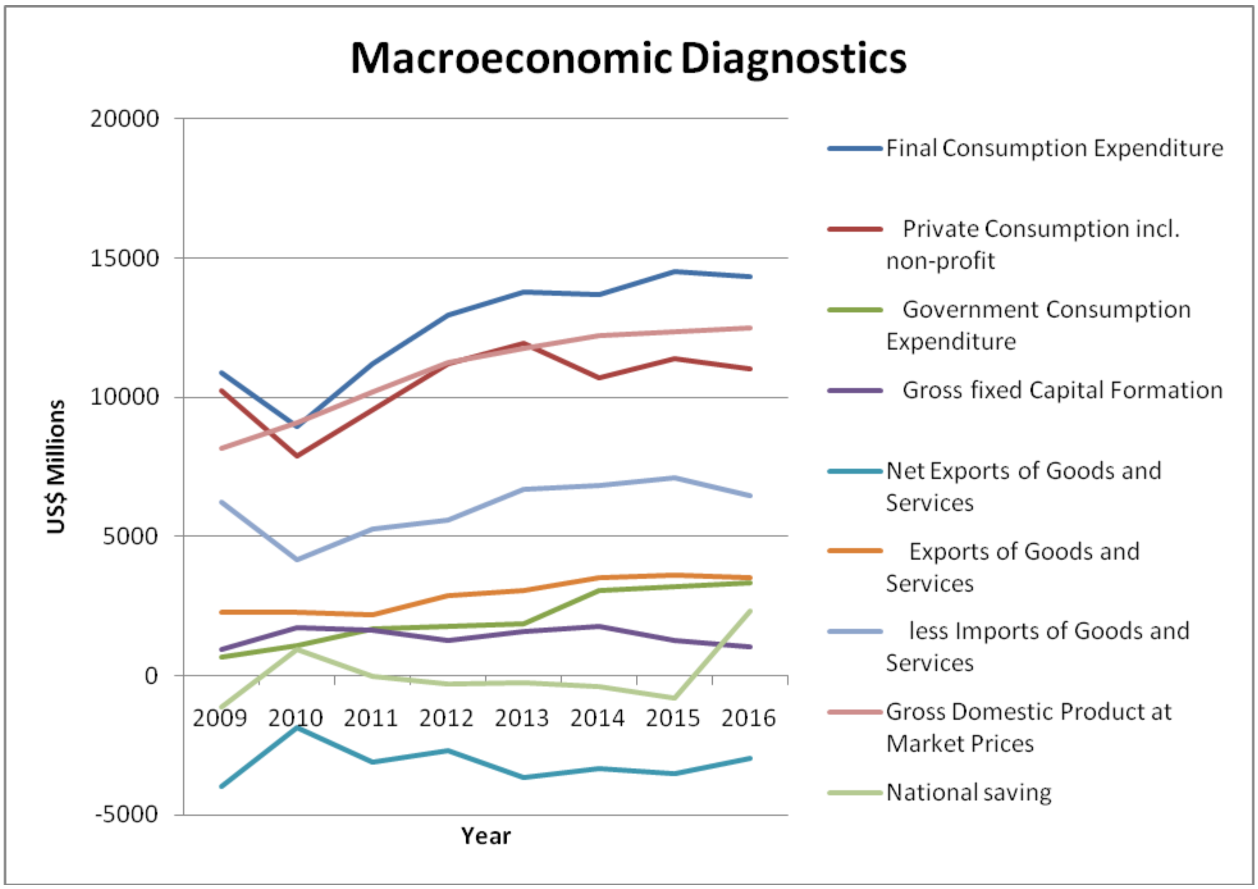
    - Shortages of foreign currency to fund critical inputs in most sectors of the economy;
    - High cost of production which has eroded competitiveness;
    - Unsustainable Government wage bill;
    - Trade deficit; and
    - Unsustainable debt stock of about 80% of GDP.

## Macro-Economic Diagnostics

3. The economy still faces imbalances characterized by low and declining investment, both foreign and domestic, high consumption-particularly public

consumption, low exports and significantly high imports. The external sector still remains a threat to a strong recovery largely due to weak exports leading to an unsustainable trade deficit, although imports have been coming down as shown in Figure 1 Below.

**Figure 1: Macro-Economic Diagnostic**




Source: MoMEPIP

4. To address some of these challenges, Government has taken the following measures:

i. Enacted Special Economic Zones Act in December 2016 which will boost investment through the imminent establishment of Special Economic Zones;

ii. Working towards restructuring the budget by reducing the wage bill so as to increase capital expenditure; and

iii. Import contraction while incentivizing exports through various exports incentives schemes.

5. In addition, supply side stimuli measures are being implemented in various sectors of the economy by the Government. These include:-

- Command agriculture;
- Recapitalisation of mines through joint ventures; and
- Financing arrangements to augment local companies recapitalisation in order to increase domestic supply and exports.

6. Overally, economic activity in the near term will depend to a large extend on how quickly the measures outlined above are implemented, particularly measures to fully operationalize Special Economic Zones, boost agriculture and increase export earnings.

## REAL SECTOR DEVELOPMENTS

### Agriculture

7. Agriculture is projected to grow by 12% in 2017 on account of a normal to above normal rainy season, as all areas have received above normal rainfall with the exception of Beitbridge which is still in the below normal category. The downside risks in the sector are water logging and fertilizers supply hitches. Further, the incessant rains slowed down the weeding process as well as the ability of farmers to apply fertilizers and chemicals.

### Maize

8. Maize production is projected to grow by 203% in 2017. The bulk of the maize crop that was planted early, including that under the Command Agriculture, is doing well despite the heavy rains. In some parts of the country, the maize crop is being adversely affected by the heavy rains and in some cases the crop is beginning to show signs of leaching. However, farmers are now able to import fertilizer to augment local supply which should ameliorate the initial fertilizers supply hitches.

9. In terms of the outlook, indications are that the 2017 maize production target of 1 550 000 tonnes will be met or surpassed.

**Tobacco**

10. In the 2016/17 season, Government is anticipating tobacco to grow by 1.3%. However, farmers are currently facing challenges of false ripening due to heavy rains. The farmers are being forced to reap the crop and this is putting pressure on curing facilities.

11. As at 30 December 2016, a total of 80 745 farmers had registered as growers and of these, 14 101 were new growers. The registered growers for the 2016/17 season are 15% more than the 2015/16 growers. In this regard, indications are that the 2017 targets of 205 million kgs will be met despite the challenges being faced.

**Other Crops**

12. In December 2016, Government projected growth in production of most crops which include; cotton, groundnuts, wheat, soyabeans, sorghum and barley as shown in the table below

**Table 1: Selected crops' growth rates**

| | | 2012 | 2013 | 2014 | 2015 Est. | 2016 Revised | 2017 Proj |
|---|---|---|---|---|---|---|---|
| Groundnuts (000 tonnes) | 3.2 | 120.0 | 86.7 | 135.0 | 88.9 | 47.2 | 75.0 |
| Wheat (mt) | 3.6 | 33.7 | 39.2 | 58.7 | 62.3 | 60.0 | 60.0 |
| Soybeans | 1.9 | 70.5 | 76.9 | 84.7 | 57.9 | 47.7.0 | 90.0 |
| Sorghum | 0.6 | 64.8 | 69.2 | 136.5 | 39.7 | 36.3 | 50.0 |
| Barley | 0.4 | 44.0 | 47.2 | 19.5 | 18.0 | 13.0 | 25.0 |

***Source: MOEPIP, MOFED, RBZ and ZIMSTAT***

13. In terms of the outlook, indications are that these targets will be met and for some crops like wheat and soya beans it can be surpassed due to more than anticipated response to contract farming on these cash crops. In addition, Government is considering including wheat under the Command Agriculture Scheme. From this early assessment, there is strong possibility that the Agriculture Sector will meet its growth target or even surpass it.

**Mining**

14. Zimbabwe's mining industry remains a key driver to sustainable economic development, mainly because of its contribution to exports as well as its inter-linkages with other sectors of the economy. The sector contributes about 10% to GDP and 60% of exports.

15. The sector continues to face acute capital shortages and delays in procurement of critical inputs. This is compounded by the fact that most of the minerals are exported in raw form. This calls for huge investments towards value addition programmes and SEZs in the mining sector to value add and export processed minerals.

16. Gold will largely benefit from price recovery resulting in improved viability and expected increase in output by gold producers, emanating from expansion projects as well as gold mobilization initiatives by Government. This saw 23 tonnes of gold being produced in 2016, of which 21.4 tonnes were from primary and small scale producers with the remaining 1.6 tonnes from Platinum Group of Metals (PGMs). Gold production target for 2017 is 22 tonnes.

17. Platinum output for 2017 is expected to increase compared to 2016 against a background of firming international prices.

18. Government will continue to monitor progress for the Base and Precious Metal Refinery construction as this will impact on output.

19. In 2017, nickel output will benefit from mine expansion projects and refurbishment of equipment and production ramp up by the primary nickel producer, Bindura Nickel Corporation (BNC). These include shaft deepening to extend mine life as well as servicing and refurbishing its plant and equipment. Possible resuscitation of Shangani mine and the successful refurbishment of plant and equipment and the use of the acquired new mobile plant equipment in 2015 as well as increased performance of the PGMs is expected to benefit nickel output in 2017. In addition, the firming up of nickel prices on the international market will positively impact nickel production. Nickel production target for 2017 is 18 000 tonnes.

20. The resultant output for diamonds in 2017 will also benefit from the following measures:
    - Expediting and finalisation of the consolidation of diamond firms into the Zimbabwe Consolidated Diamond Company (ZCDC); and
    - Capitalisation of the ZCDC to the tune of US$30 million in 2017 to ramp up diamond production.

21. Chrome output is also expected to rebound in 2017 in response to:

- Prices which began to firm in the second quarter of 2016 on account of improved demand from China and tightening of supply through production cutbacks effected in the last half of 2015 and Q1 2016;
- Successful redistribution of Government acquired chrome claims to small scale miners;
- Release of more chrome claims by ZIMALLOYS; and
- Technical and financial assistance to small scale miners.

22. In addition, various chrome investments are underway which are anticipated to increase output. These include RioZim plans to restart ferrochrome production at Maranatha and initiate chrome ore production at Ngezi Mine.

23. In summary, given the firming up of mineral prices on the international market and measures being implemented by the Government, the mining sector is projected to achieve a 0.9% growth rate in 2017.

**Manufacturing**

24. With regards to manufacturing sector, there has been low domestic production as Confederation of Zimbabwe Industries estimates that manufacturing sectors capacity utilisation was 47.4% in 2016. This emanated from low demand for domestic products, liquidity crisis, competition from imports and local producers' constraints namely high cost of business and shortage of foreign currency, amongst other factors. This means that the capacity of the economy to produce goods is heavily compromised. This naturally results in economic agents importing goods and services to meet local shortfalls.

25. According to CZI, capacity utilisation is projected to increase to 65% by year end as Government puts in place vigorous measures, for example the introduction of SI64 of 2016 to ensure that domestic production increases. The manufacturing sector is projected to grow by 0.1% in 2017 compared to an estimated growth rate of 0.3% in 2016.

**INFLATION DEVELOPMENTS**

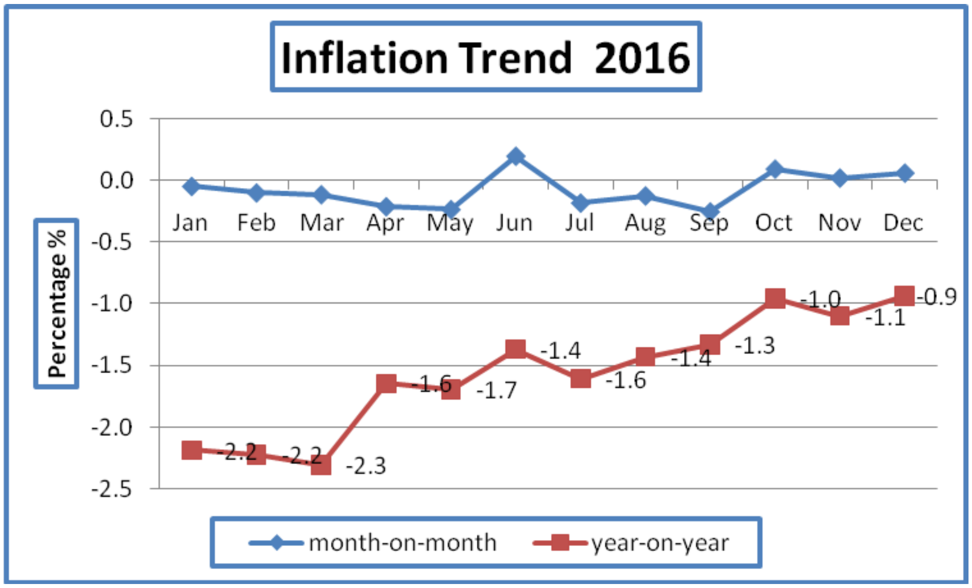
26. Since January 2013, the year on year rate of inflation as measured by the Consumer Price Index has been on a declining trend. In 2014, the year on year inflation rate turned negative with the lowest rate being -3.3 percent in October 2015.

27. As from November 2015, inflation started to build up. By March 2016, the rate of inflation stood at -2.3 percent and continued firming up.

28. According to ZIMSTAT, the year on year inflation for the month of January 2017 was -0.65 percent compared to -0.93 percent registered in December 2016. This represents a 0.28 increase in year on year inflation.

29. The month on month inflation between December 2016 and January 2017 registered an increase of 0.18 percentage points. This indicates some inflation build up during this period.

**Figure 2: Year-on-Year and Month-on-Month Inflation Trend for 2017**




Source: ZIMSTAT

30. The major factors behind the upward trend in inflation include the shortage of foreign currency to import critical raw materials that led to high premiums being charged on hard currency.

31. These premiums are being passed on to the consumer resulting in inflation which we are currently experiencing.

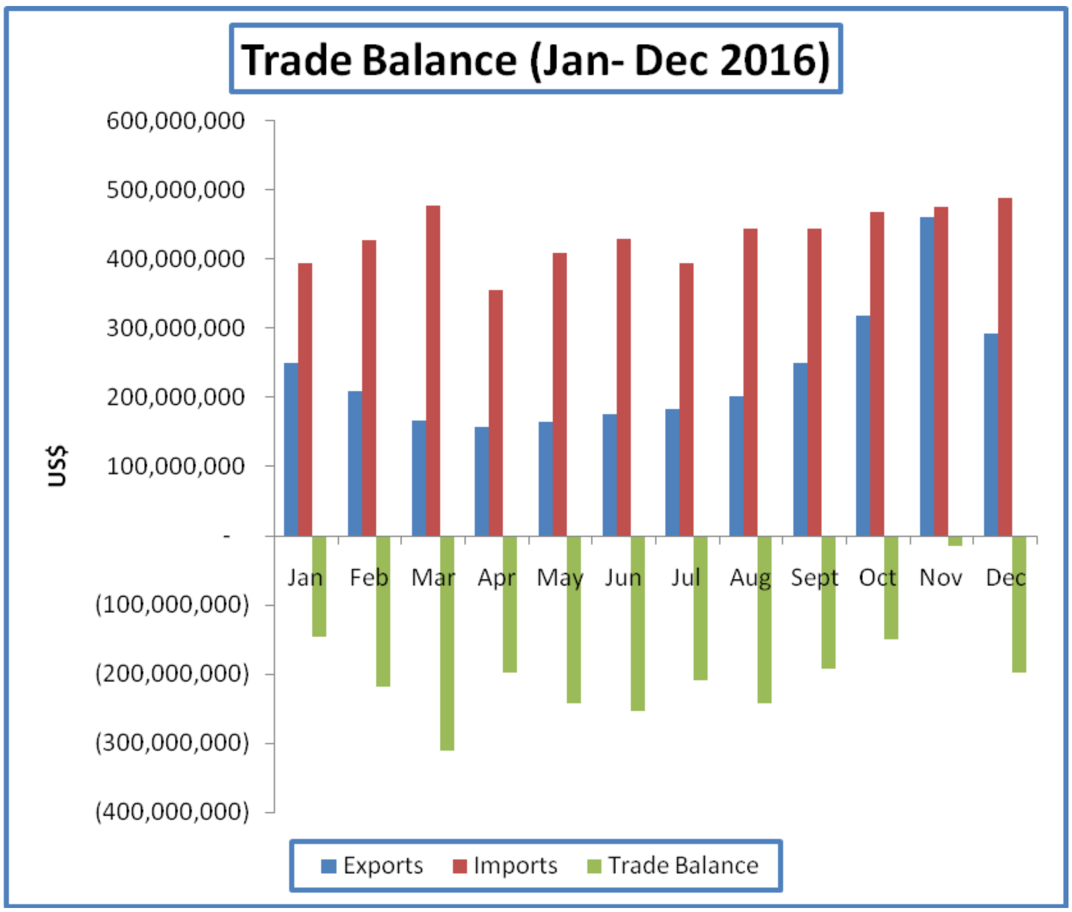
32. In addition, the introduction of SI64 resulted in a scenario where some producers were protected in an environment characterised by low capacity utilisation and high cost structures. This resulted in demand pull and cost push inflationary pressure, resulting in price increases of some commodities, leading to inflation. The trend is expected to continue during the year.

## EXTERNAL DEVELOPMENTS

### Trade Balance

33. Total exports from January to December 2016 amounted to US$2,833 billion against imports of US$5,211 billion, giving a deficit of US$2,379 billion which was more than initially anticipated. The trade balance for January to December is shown in the Figure 5 below:

**Figure 5: Trade performance: January- December 2016**




Source: ZIMSTAT

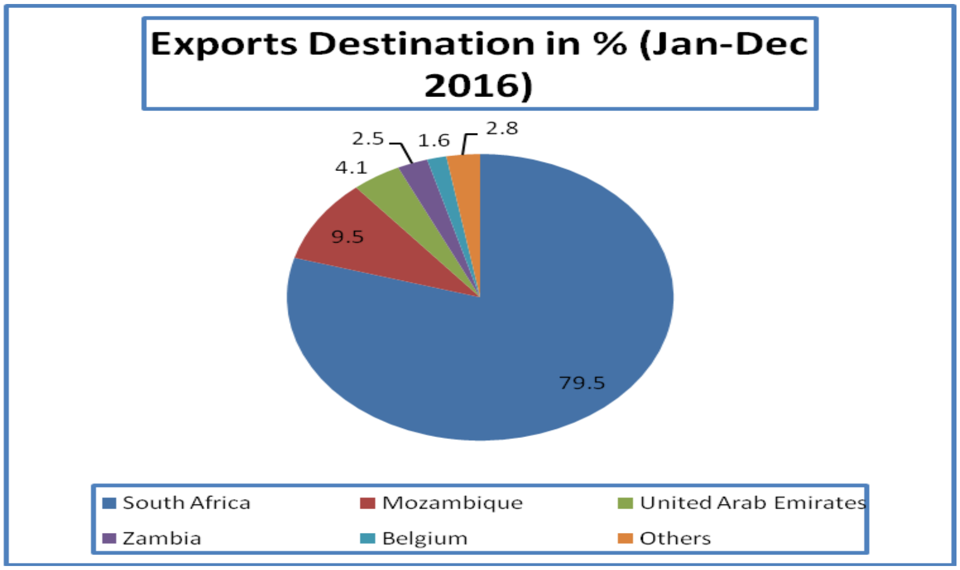
34. Figure 5 above, shows that the economy experienced a trade deficit throughout the period January to December 2016. This scenario is expected to continue given the fact that most of the exports are raw and suffer from lack of competitiveness due to an appreciation of the US dollar.

35. In terms of trade deficit outlook, a trade deficit of US$1,537 billion is projected for 2017. In order to reach the projected trade deficit in 2017, an increase in value added exports has to be fostered, the good rains that the country is experiencing should result in increased tobacco output - a major export commodity, as well as reduction in grain imports (particularly maize imports) as Zimbabwe strives to achieve food self sufficiency. In addition, the new tax proposals to support industry by offering rebates on selected raw materials to enhance competitiveness of domestic production is expected to result in increased value added exports.

***Exports***

36. The main export destinations during the period January to December 2016 were South Africa, Mozambique, United Arab Emirates, Zambia, Belgium, constituting 79.5%, 9.5%, 4.1%, 2.5%, 1.6%, respectively and others 2.8%. South Africa was the main destination for Zimbabwe exports as shown in the figure 6.

**Figure 6: Export destination for January to December 2016**

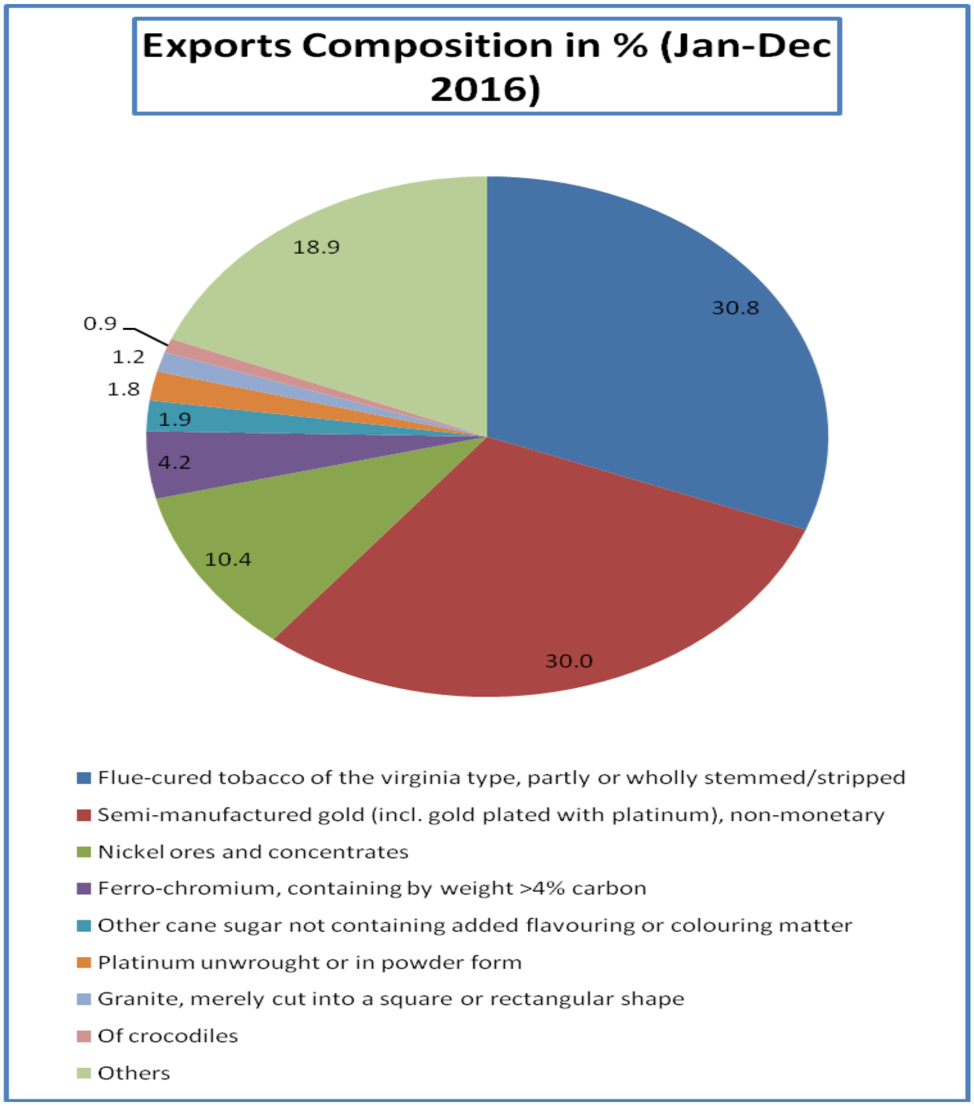



Source: ZIMSTAT

**Exports composition**

37. During the year 2016, the country mainly exported flue cured tobacco which contributed 30.8% of total exports followed by gold with 30%. In terms of economic activity segregation, major agricultural related exports amounted to 33.6% whilst mineral related exports were 46.4%. There is minimum value addition done in exports as shown in the Figure 7 below.

**Figure 7: Exports by product January – December 2016**

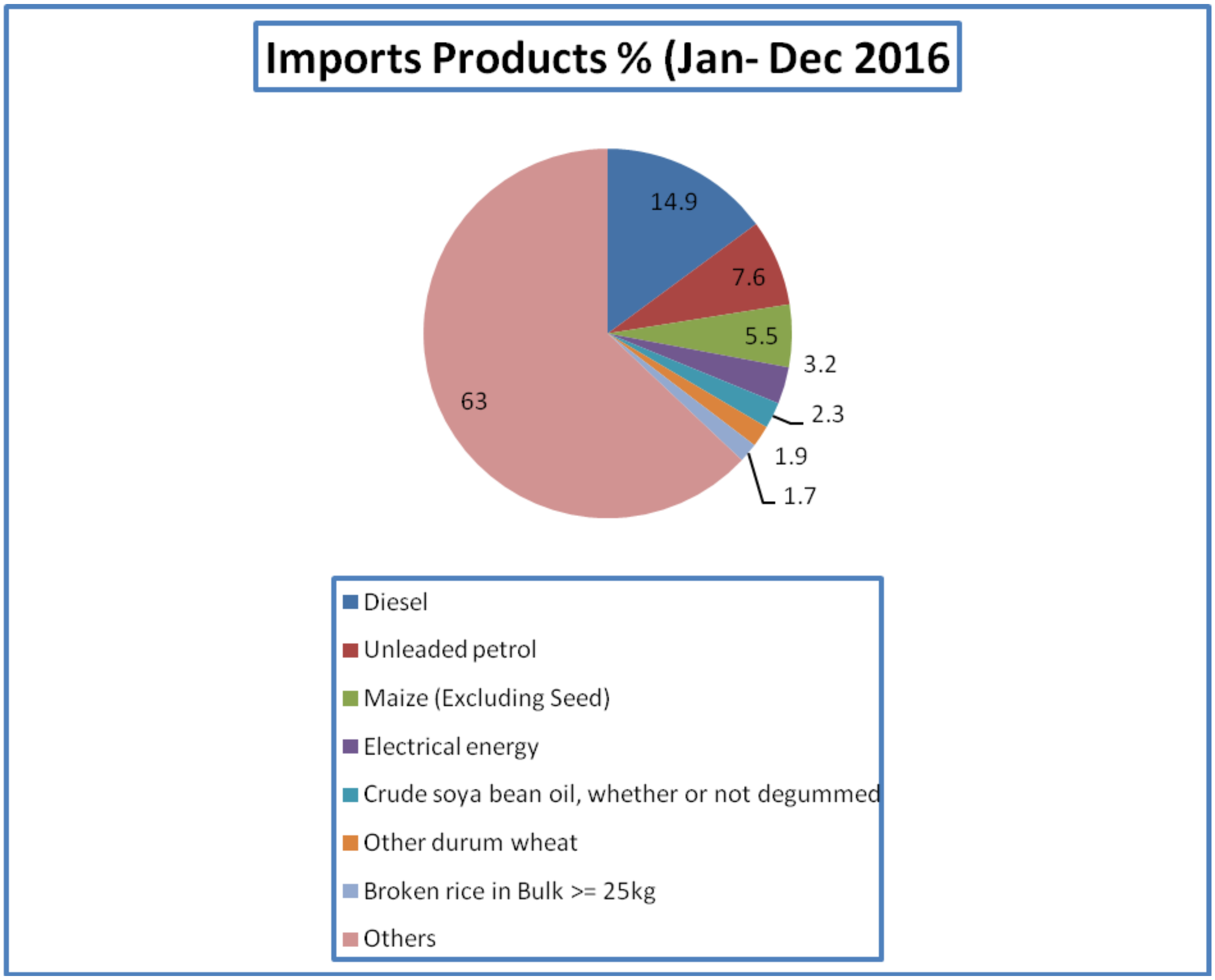



Source: ZIMSTAT

***Imports***

38. During the year 2016, the economy mainly imported fuels and maize, that constituted 22.5% and 5.5% respectively. The importation of maize (excluding seed) was necessitated by the drought that hit most parts of the country. A detailed description of imports products is shown below in Figure 8.

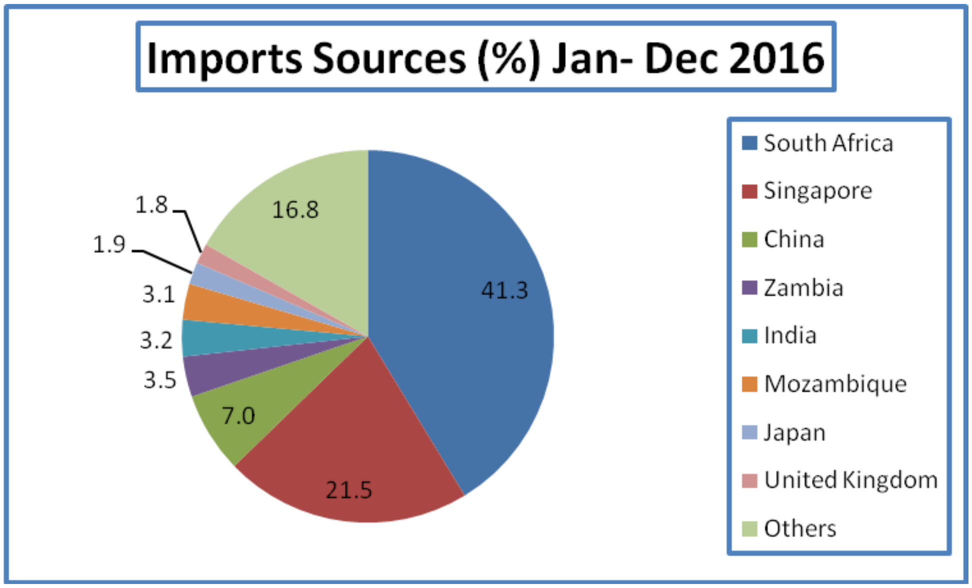
**Figure 8: Imports Products January- December 2016**




Source: ZIMSTAT

39. The main source countries for imports were South Africa, Singapore, China, Zambia, India, Mozambique, Japan and United Kingdom which constituted 41.3%, 21.5%, 7%, 3.5%, 3.2%, 3.1%, 1.9% and 1.8% respectively while others had 16.8% in 2016, as shown in the Figure 9 below.

**Figure 9: Imports by country: January- December 2016**




Source: ZIMSTAT

**Exchange Rate Developments**

40. From 2011 to end of 2016 the rand depreciated by almost 100% as it used to be at a rate of R6.5 to US$1 in September 2011 and ended the year at R13.74 to US$1 in December 2016. In terms of the outlook, the rand is most likely to follow a similar trend. It is important to note that, raising of interest rates in USA in 2016 saw the US dollar appreciating in value. This development had a negative impact on the competitiveness of Zimbabwe's exports. Further, it made imports from South Africa more attractive thereby worsening the trade balance. In this regard, the use of the US dollar left Zimbabwe's monetary authorities with inadequate tools to steer the monetary sector in the direction that benefits the real sector, exports, balance of payments and ultimately economic growth.

41. This was worsened by lack of competitiveness that arises from the cost of labour (and labour laws) as well as electricity and fuel in the economy compared to other

regional investment destinations. While petrol was selling at US$1.37 per litre in February 2017 in Zimbabwe, in Botswana petrol was being sold at US$0,70. While electricity on average costs US$0,09/kwh in Zimbabwe, in Zambia it is going for US$0,06/kwh. There is therefore need to re-examine these cost drivers to enhance export competitiveness and investment attraction to turn the economy's fortunes in 2017.

## GOVERNMENT EFFORTS TO IMPROVE THE ECONOMIC OUTLOOK FOR 2017 AND BEYOND

42. From the Balance of Payments Accounts, the major sources of foreign currency in the economy are exports that earned US$2.8 billion in 2016, followed by transfers that have a strong component (of about 50%) of Diaspora remittances, in third position is foreign direct investment that stood at US$421 million in 2015. The fourth source of liquidity is loans and mostly short term loans. This is liquidity for which the economy holds future obligations.

43. Going forward, Government is targeting to increase earnings from the first three sources of liquidity in the manner stated below.

### Special Economic Zones (SEZs)

44. To increase exports the Special Economic Zones are going to be the workhorse of the economy. It is envisaged that Special Economic Zones (SEZs) will bring technology transfer which is part of the solution to antiquated machinery in the manufacturing sector. SEZs will propel the value addition aspect of the economy as their major thrust is value addition and exports. It is Government's strategy to use SEZs to embark on an export led economic growth trajectory.

45. Over and above exports, SEZs are envisaged to reduce unemployment, improve Government revenue collection and ultimately contribute to GDP growth. Thus, SEZs have the potential to change the structure of the economy from a raw exporting economy to a value added export economy as called for by Sustainable Development Goal number 8.

46. Special Economic Zones will also be a leading vehicle for improved Foreign Direct Investment (FDI) in the economy. African economies that have registered economic growth rates above 5% consistently have SEZs. These include Ethiopia and Rwanda to mention a few. In addition, Tanzania is establishing SEZs in each and every province.

**Diaspora Remittances**

47. Government came up with a Zimbabwe Diaspora Policy in 2016. The purpose of the policy is to involve the Diaspora is national development processes of the economy through:-

a) Investment by the diaspora;

b) Skills transfer to Zimbabwe;

c) Remittances; and

d) Philanthropic work.

48. In 2016, Government engaged members of the diaspora in South Africa, United Kingdom and Canada. In 2017, Government will engage those in Australia, USA and Botswana. These efforts, notwithstanding a strengthening US dollar, are targeted at achieving 10 to 20 percent growth in remittances annually.

**Sustainable Development Goals**

49. In 2017, Zimbabwe like any other United Nations Member State is due to submit a report on the performance of the economy with respect to The Sustainable Development Goals.

50. The first quarter of 2017 will see finalization of the selection of targets and indicators. The major constraint experienced to date is unavailability of data on SDG indicators, with only about 50% available.

51. In measuring progress on SDGs, the 2015 data sets will be used as the baseline. The 15 year period covered by the SDGs (2016 -2030) has annual targets set for which progress will be measured henceforth.

52. Going forward, the SDGs are the guiding principles of development planning up to 2030. As such Zimbabwe's next medium term plan will be guided by the African Union's Agenda 2063 and Sustainable Development Goals.

53. To refresh our minds the seventeen Sustainable Development Goals are :-

Goal 1 End Poverty in all its forms everywhere;

Goal 2 End hunger, achieve food security and improved nutrition and promote sustainable agriculture;

Goal 3 Ensure healthy lives and promote well-being for all at all ages;

Goal 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;

Goal 5 Achieve gender equality and empower all women and girls;

Goal 6 Ensure availability and sustainable management of water and sanitation for all;

| | |
|---|---|
| Goal 7 | Ensure access to affordable, reliable, sustainable and modern energy for all; |
| Goal 8 | Promote sustained inclusive and sustainable economic growth, full and productive employment and decent work for all; |
| Goal 9 | Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation; |
| Goal 10 | Reduce inequality within and among countries; |
| Goal 11 | Make cities and human settlements inclusive, safe, resilient and sustainable; |
| Goal 12 | Ensure sustainable consumption and production patterns; |
| Goal 13 | Take urgent action to combat climate change and its impacts; |
| Goal 14 | Conserve and sustainably use the oceans, seas and marine resources for sustainable development; |
| Goal 15 | Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forest, combat desertification and halt and reverse land degradation and halt biodiversity loss; |
| Goal 16 | Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels; |
| Goal 17 | Strengthen the means of implementation and revitalize the global partnership for sustainable development |

54. In the implementation of SDGs, Zimbabwe came up with a country position that requires implementation of all 17 SDGs with more emphasis on the following Goals; 8, 7, 2, 9, 6, 13, 17, 3, 4 and 5.

55. Selection of the ten was influenced by;

a) National development priorities;
b) Unfinished MDGs business;
c) Limited resource envelope; and
d) The envisaged multiplier effect of the 10 SDGs that would trigger implementation of the rest.