

## ZIMBABWE ECONOMIC BRIEF

November 2018

Building a New Zimbabwe

Targeted Policies for Growth and Job Creation

### HIGHLIGHTS

2018 growth has been downgraded to 4.0%. Growth is expected to reach 3.1% in 2019 and 7% in 2020, mainly driven by agricultural and mining activities.

## 1. OVERVIEW

The Government of Zimbabwe (GOZ) released the 2019 budget on 22nd November 2018, meant to buttress the initiatives in the Transitional Stabilization Programme (October 2018 – December 2020). The key highlights of the budget were: **Growth:** The minister acknowledged that the prevailing weak macro-economic fundamentals will subdue growth in 2018, which has been downgraded to 4.0%. Growth is expected to reach 3.1% in 2019 and 7.5% in 2020, mainly driven by agricultural, tourism and mining activities. In terms of **Fiscal policy**, the government acknowledged the high fiscal deficit over the last couple of years and noted that the 2018 deficit will reach 11.7% of the GDP. However, plans are being put to reduce the deficit to 5% in 2019 and 4.1% in 2020. Measures proposed include 5% salary cuts for senior civil servants; retrenchment of public servants above 65 years and 3000 Youth officers, among other austerity measures. Revenue mobilization will also be enhanced by ensuring that all revenue are centrally collected by the Zimbabwe Revenue Authority (ZIMRA), remittance of all revenue collected by government ministries and departments into the Consolidated Revenue Fund, and some additional taxes on income and purchase of goods and services as well as sale of some State Owned Enterprises.

In terms of **monetary policy**, currency reforms to wait a little longer as the minister reiterated the retention of the multi-currency regime with the US dollar as the currency of reference. The minister however acknowledged the challenges of the three tier pricing system which has distortionary effects. Year on year inflation has been on the rise and is expected to hit an average of 8.3% by end of 2018, and further projected to increase to an average of 22.4% in 2019 on account of fiscal measures (e.g. 7% raise of excise on fuel); expected food shortages, and high parallel exchange rates, among other factors. The country's year on year inflation rate was highest in the Southern African Development Community (SADC) region for the month of October 2018 where it reached 20.8%, having gained 15.5 percentage points from 5.4 percent recorded in September 2018.

The **Current Account deficit** is expected to continue to widen on account of subdued exports and increased importation of capital equipment, fuel and other groceries. In terms of **Debt and Arrears Clearance**, Public debt stood at USD 17.28 billion in September

2018, breaching the statutory target of 70% to GDP, and is projected to reach USD 18.1 billion by this year end. External debt expected to end the year at USD 8.5 billion and domestic debt at USD 9.6 billion. The Minister continued to express commitment to clearing of debt Arrears over the next 12 months.

Premised on a nominal GDP of USD 31.6 billion, the total budget for 2019 is USD 8.2 billion. Recurrent expenditure is expected to reach USD 6 billion with the rest going to capital expenditure. Out of recurrent expenditure, USD 1.3 billion will be set aside for social sectors including health and education. The Government also released alongside the budget, a 2019 Infrastructure Investment Plan aimed at revamping the dilapidated infrastructure. It is expected to cost USD 2.6 billion in 2019, USD 1.1 billion will be mobilized through the budget with USD 1.5 billion as off budget financing.

Trade statistics for the period February to September 2018 show that exports increased by about 22 percent compared to the same period in 2017, to register a record 10 month level of USD2.76 billion since dollarization in 2009. Since imports, which are higher, increased by a higher rate than exports, the trade deficit worsened over the period, underlining the continued net trade outflow of the scarce foreign currency resources. This implies that expediting export promotion measures should be accompanied by import containing measures to manage foreign currency availability. Despite Zimbabwe ratifying the Interim Economic Partnership Agreement (EPA) in 2012, the country remains marginally integrated in the regional and global economy with exporters facing stringent standards requirements which are expensive to meet when they want to export, for example, to the European Union (EU). Generally, there is a perception that the EU market is difficult to penetrate.

For the real sector, tobacco registered a marginal increase of 0.66 percent to 15,978 ha put under tobacco as at 19 October 2018 compared to 15,874 ha same period in the previous season. The bulk of the crop (92 percent) is under irrigation. The mining sector is projected to grow by 26 percent in 2018, 16.1 percent in 2019 and a further 15.3 percent in 2020, benefiting from strong performances mainly in gold, diamonds, chrome and coal. The problem however, is that most minerals are exported in raw form hence the move by Government to scale up investments in beneficiation and value addition of minerals is critical. Currently there are some companies already involved in partial beneficiation of minerals such as chrome, platinum group metals (PGMs), nickel and diamonds, although not at full scale.

The manufacturing sector showed signs of recovery due to the protectionist policies implemented over the last five years. However, statutory Instrument 237A of 2018 gazetted on 29 October 2018 allowed 29 products which previously required import license to be imported into the country subject to the payment of the appropriate customs duty. Between February and September 2018, the importation of plant and machinery used in the manufacturing industry increased by about 39 percent to USD28.8 million compared to 2017, a sign which could be ascribed to retooling. However, the manufacturing sector's high dependence on imports is not sustainable given that the economy is susceptible to shocks which require adjustments.

## HIGHLIGHTS

Despite Zimbabwe ratifying the Interim Economic Partnership Agreement (EPA) in 2012, the country remains marginally integrated in the regional and global economy with exporters facing stringent standards requirements which are expensive to meet when they want to export to the European Union (EU).

The influx of imported products following the removal of protection is likely to have a negative impact on the manufacturing sector firms that have not used the protection window to upgrade their plants and fine-tuned their business and pricing models in preparation for increased competition from abroad. The opening up of the economy therefore is a litmus test on the preparedness of Zimbabwean manufacturing firms to withstand competition. Protection regimes are generally temporary and five years is a long time for firms to have invested in both soft and hard infrastructure to enhance their competitiveness.

Commercial bank lending rates for corporates declined from 7.05 percent in July 2017 to 6.97 percent in July 2018 whereas lending rates for individuals increased from 8.94 percent to 9.75 percent over the same period. Despite the decline in lending rates to corporates, lending to the private sector started declining while lending to government and individuals increased. Increase in lending to Government and individuals at the expense of private sector firms reflect some crowding out effect to the private sector's borrowing for productive purposes. Loans to individuals are generally salary based and therefore relatively less risky for lending financial institutions. Similarly, increasing holdings of government securities is relatively less risky. Worse still most of the lending to the private sector has been deployed for short-term uses such as recurrent, inventory stock-ups and durables which may affect retooling of firms.

Zimbabwe still has opportunities for growth in areas such as tourism. Lonely Planet, a large travel guide book publisher ranked Zimbabwe the 3rd safest destination to visit in 2019 after Sri Lanka and Germany. Some of the positives in the tourism sector include the Big Five-filled national parks, World Heritage-listed archaeological ruins, forested mountains and the mighty Victoria Falls (one of the seven natural wonders of the world).

Zimbabwe is undertaking "Ease of Doing Business Reforms" which have resulted in improved rankings for the country. The ranking improved to 155 out of 190 surveyed for 2019 Ease of Doing Business Reforms. The ease of doing business reforms coupled with the austerity measures being adopted by government to reign in excessive public expenditure are expected to spur increased investment inflows into the country at a time when Zimbabwe is opening up to do business with the rest of the world.

The Bank Group launched the 2018 *Zimbabwe Economic Report – Building a new Zimbabwe, targeted policies for growth and job creation*. The report, which is part of Bank Group analytical work provides the government with alternative growth scenarios to the year 2030. It identifies key sectors for potential investment to achieve sustainable and inclusive growth, namely agriculture, ecotourism and development of special economic zones. It is premised on the assumption that the arrears clearance will be expedited for economic restoration to commence. The report is important for several reasons. First, it provides the government, the donor community, and the private sector with a detailed assessment of investment opportunities in Zimbabwe. Second, it proposes options to develop these opportunities and, in so doing, helps fill the gap created by the absence of sectoral investment priorities. Third, it can be used to inform and support the government's dialogue with donors and the business community about further development of these sectors. Increased coordination and partnership will improve the alignment of investments with the national objectives, as set out in Zimbabwe's Transitional Stabilization Programme (2018–20) and subsequent medium-term plans. The report is available at:

#### HIGHLIGHTS

**The Bank Group launched the 2018 Zimbabwe Economic Report – Building a new Zimbabwe, targeted policies for growth and job creation.**

[https://www.afdb.org/fileadmin/uploads/afdb/Documents/GenericDocuments/Zimbabwe Economic Report - Building a new Zimbabwe Targeted policies for growth and job creation.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/GenericDocuments/Zimbabwe_Economic_Report_-_Building_a_new_Zimbabwe_Targeted_policies_for_growth_and_job_creation.pdf)

Made of eleven easy-to-read chapters, the report results from a one-year extensive research work of country, sector and thematic studies to offer economic analyses and policy recommendations that can help spark Zimbabwe's transformation. It provides the current government, the donor community, and the private sector with a detailed assessment of investment opportunities in Zimbabwe. As an analytical work, it also provides alternative scenarios for infrastructure investment to the year 2030 and identifies sectors for potential investment to achieve sustainable and inclusive growth. While contributing to the overall efficiency of the development process, the report also proposes options to develop a variety of opportunities and, in so doing, helps fill a knowledge gap on sectoral investment priorities.

## 2. REGIONAL ECONOMIC DEVELOPMENTS

### 2.1 Regional inflation Developments

In October 2018, Zimbabwe overtook Angola to have the highest year on year inflation in the region, with inflation rate for the month gaining 15.5 percentage points to 20.9 percent from 5.4 percent recorded in September 2018. This was followed by Angola, Zambia and Kenya whilst Mauritius continued to have a stable and low inflation rate of 2.8 percent in the region followed by Tanzania (Table 1).

**Table 1: Summary of regional inflation Trend, January - October 2018**

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	% Points
Zimbabwe	3.52	2.98	2.68	2.71	2.71	2.91	4.29	4.83	5.39	20.85	15.46
Angola	22.7	21.5	20.9	20.2	19.8	19.52	19.1	18.6	21.6	18.04	-3.56
Zambia	6.2	6.1	7.1	7.4	7.8	7.4	7.8	8.1	7.9	8.3	0.4
Kenya	4.83	4.46	4.18	3.73	3.95	4.28	4.35	4.04	5.7	5.53	-0.17
Namibia	3.6	3.5	3.5	3.6	3.8	4	4.5	4.4	4.8	5.1	0.3
Mozambique	3.84	2.93	3.05	2.33	3.26	4.4	4.73	5.02	4.89	4.75	-0.14
Botswana	3.1	3.2	2.8	3.4	3.3	3.1	3.1	3	2.9	3.6	0.7
Seychelles	4.5	4.88	4.66	4.18	3.59	3.01	3.13	2.78	3.27	3.43	0.16
Tanzania	4	4.1	3.9	3.8	3.6	3.4	3.3	3.3	3.4	3.2	-0.2
Mauritius	6.2	7	6.7	3.7	2.4	1	1.7	0.9	1.9	2.8	0.9
South Africa	4.4	4	3.8	4.5	4.4	4.6	5.1	4.9	4.9		-4.9
Malawi	8.1	7.8	9.9	9.7	8.9	5.6	9	9.3	9.5		-9.5

Source: Trading Economics

#### HIGHLIGHTS

Zimbabwe overtook Angola to have the highest year on year inflation in the region with inflation rate for the month of October gaining 15.5 percentage points to 20.9 percent from 5.4 percent recorded in September 2018.

## 2.2 Regional integration and trade negotiations

Zimbabwe signed an Interim Economic Partnership Agreement (EPA) with the EU in 2009 and ratified it in 2012. The agreement spans between 2013 and 2022. The country is receiving technical assistance from the EU to the tune of EUR 10 million under the 11<sup>th</sup> European Development Fund National Indicative Programme to support EPA implementation. The programme started in October 2018 and is expected to end in June 2022. Its main objective is to enhance Zimbabwe's integration into the regional and international trading systems. The programme's objectives are three-fold:

- To reform and stream line policy, regulatory and institutional framework to incentivize production and trade in selected value chains;
- To reduce trading costs and expedite movement, release and clearance of goods' and
- To improve trade competitiveness and export capacities of small and medium enterprises.

### *Zimbabwe's trade preparedness*

Zimbabwe is marginally integrated in the global economy. Its export basket to the EU market is largely undiversified, dominated by a few primary commodities that have been dwindling over the years. The country has been recording a negative trade balance with the EU. Zimbabwe is further suffering from low export competitiveness owing to very high costs of production among other reasons. Implementation of the EPA is lagging behind and the business community is generally not prepared to compete with European products. The business community's major challenges include low capacity utilisation, use of antiquated equipment, and lack of affordable capital for retooling and high costs of doing business. In fact the country's manufacturing sector has been shrinking rapidly over the years, necessitating Government's intervention through protectionist policies. Further, the business perception is that the EU market is difficult to penetrate. In addition, exporters face stringent standards requirements which are expensive to meet.

Currently Zimbabwe faces numerous institutional and human capacity challenges coupled with regulatory gaps militating against the country's ability to participate meaningfully in international trade. The EPA technical support programme has therefore come at an opportune time when the country is implementing Ease of

#### HIGHLIGHTS

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Doing Business Reforms as well as finalising key economic policies such as the trade policy, industrial development policy and the national export strategy. The programme should therefore support these ongoing efforts in order to increase export competitiveness and export development in the country.

It is expected that the programme should build capacity of the business community to match key industries in upper middle-income economies by 2030. Zimbabwean exporters have to send competitive goods to the European and other markets. This therefore calls for more robust export development initiatives and reducing transaction costs of penetrating export markets. Zim-Trade’s capacity building model in horticulture, where horticultural players receive two weeks onsite technical support from experts from Netherlands and Germany, can be replicated and rolled out to other export sectors.

HIGHLIGHTS

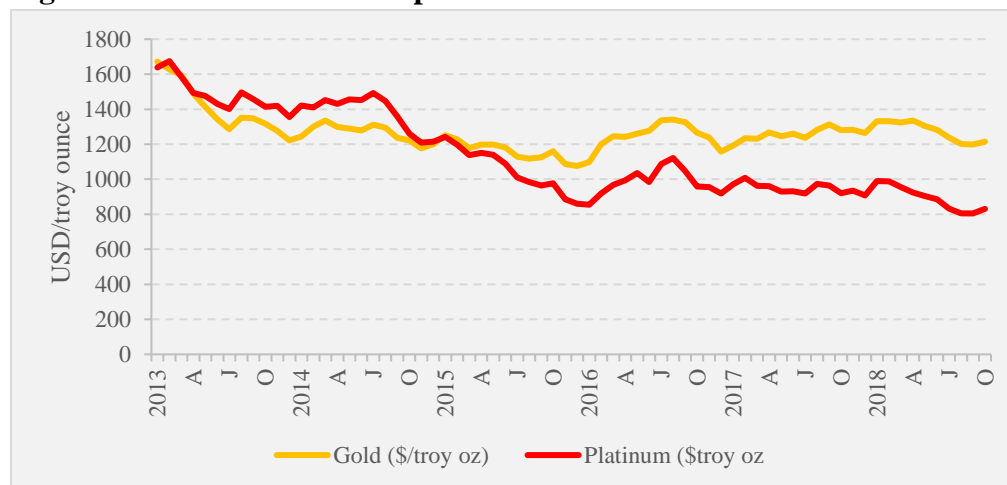
Prices of precious metals largely declined over the reporting period compared to 2017.

### 3. COMMODITIES PRICES IMPACTING ZIMBABWE

#### *Precious metals*

Platinum prices for October 2018 declined by 9.9 percent to USD829.87 per troy ounce from USD921.00 per troy ounce in the same period in 2017 (Figure 1). Persistent excess supply over demand and the strengthening of US dollar continue to weigh down platinum prices. However, on a month on month basis, the price increased by 3.1 percent from USD804.79 in September 2018.

**Figure 1: Gold and Platinum prices in October 2018**



Source: World Bank, November 2018

Gold price declined by 5 percent to USD1215.39 per troy ounce from USD1279.51 in October 2018, on the back of declining demand for gold and strengthening US dollar. According to the World Gold Council the demand for gold has declined from 1079.9 tonnes in the first quarter of 2017 to about 964.3 tonnes in the third quarter of 2018, mainly underpinned by the decline in gold demand for investment purposes. However, gold price firmed on a month on month basis by 1.4 percent in October 2018 from USD1198.39 in September 2018 owing partly to concerns over the US-China trade disputes, US-Saudi Arabia tensions, and Italy’s resistance over changing its budget. These concerns have reignited the safe haven lustre of gold in the month of October 2018.

**Crude oil**

Average crude oil price increased by 39.7 percent in October 2018 to USD76.73 per barrel from USD54.92 in October 2017 (Figure 2). On a month on month basis, the crude oil price also increased by 1.8 percent from USD75.36 in September 2018. The upward trend in crude oil price was underpinned by constricted crude oil supplies due to the crisis in Venezuela, Organization of the Petroleum Exporting Countries (OPEC) oil production caps, and expectations of reduced oil exports from Iran following the impending re-imposition of sanctions by the United States of America. This rising trend in crude oil prices does not bode well for Zimbabwe which is an importer of petroleum products.

**HIGHLIGHTS**

Average crude oil price increased by 39.7 percent in October 2018 to USD76.73 per barrel from USD54.92 in October 2017.

**Figure 2: Average crude oil price in October 2018**

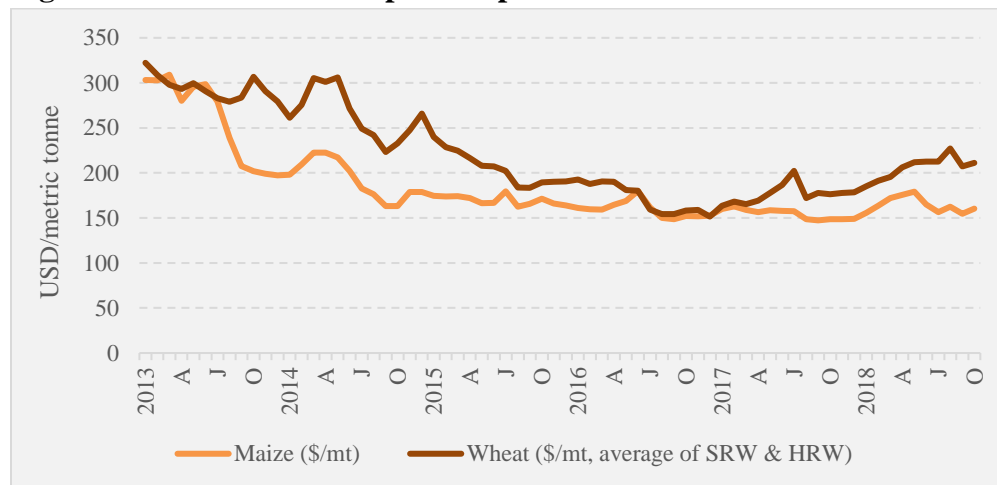


Source: World Bank, November 2018

**Wheat and maize**

In October 2018 the average wheat price on the global market increased by 19.8 percent to USD211.29 per metric tonne up from USD176.32 in October 2017. The price of wheat also increased on a month on month basis by 2 percent from USD207.21 in October 2018 (Figure 3). Lower stocks of wheat, coupled with poor weather conditions delaying wheat planting in Europe, Australia and other parts of the world, have resulted in the increase in wheat price.

**Figure 3: Maize and wheat prices April 2013 to October 2018**



Source: World Bank, October 2018

The maize price increased by 7.8 percent year-on-year to USD160.26 per metric tonne in October 2018 from USD148.62 in October 2017, while on a month-on-month basis the price also increased by 3.5 percent from USD154.80 in September 2018 (Figure 3). The increase in maize price is partly due to the expected increase in the demand for feed, declining maize stocks in Argentina, Brazil, China and USA, and harvest losses due to heavy rains in the Midwest of USA.

## 4. REAL SECTOR DEVELOPMENTS

### 4.1 Agriculture

#### Tobacco

As at 25 October 2019, farmers registration of flue cured tobacco for 2018/19 agricultural season stood at 151,632. This was a 62 percent rise from a registration that had been made over the same period last year. Most Growers’

### HIGHLIGHTS

Number of registered farmers and acreage under tobacco has increased compared to 2017.



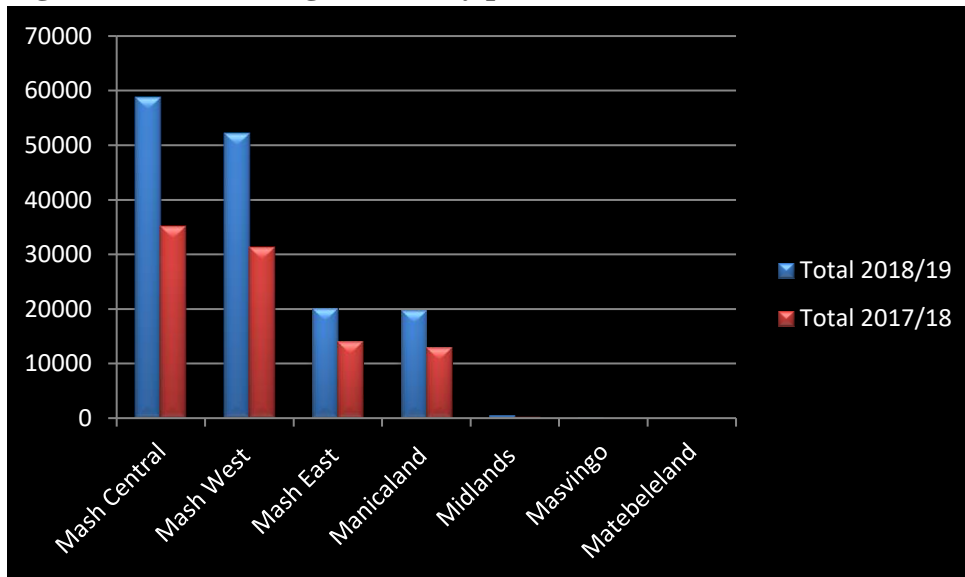
by province, were largely from the 3 Mashonaland provinces where the crop is predominantly grown (see Figure 4).

A total of 15,978 ha had been put under tobacco as at 19 October 2018 compared to 15,874 ha for the same period in the previous season, translating to a 0.66 percent increase. Nearly 92 percent of the crop is under irrigation. Total tobacco exports had reached USD 544.1 million trading as at 25 October 2018, at an average price of USD 4.50 /kg, a marginal decline from USD 556.5 million earned over the same period in 2017.

**HIGHLIGHTS**

Zimbabwe recorded a very low and declining yield for major cereal crops.

**Figure 4: Growers Registration by province 2017/18 vs 2018/19**



Source: Tobacco Industry and Marketing Board

**Food crop production and availability**

The 2019 Pre-Budget Report revealed that Zimbabwe produced 1.8 million tonnes of maize against a national requirement of 2.2 million tonnes for human and livestock consumption, resulting in about 18.2 percent deficit. A similar picture of low cereal output was also presented in the Second Round Crop and Livestock Assessment Report for the 2017/18 season. Sorghum output for example reached 77, 514 mt down from 182, 012 mt. On the other hand pearl millet significantly declined from 82, 663mt in the 2016/17 season to a low of 48, 844mt in the just ended 2017/18 season. Zimbabwe recorded a very low and declining yield for major cereal crops as illustrated in Table 2.

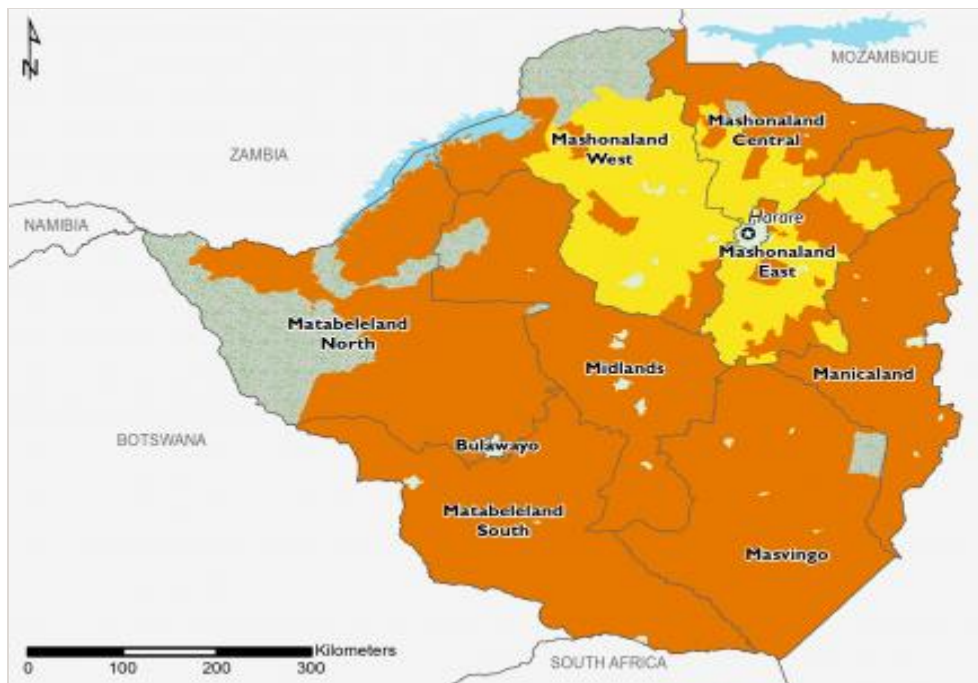
**Table 2: Cereal yield for 2017/18 vs 2016/17**

	2017/18 (mt/ha)	2016/17 (mt/ha)
Maize	0.99	1.15
Sorghum	0.43	0.57
Pearl Millet	0.31	0.40
Finger Millet	0.35	0.46

Source: *Second Round Crop and Livestock Assessment Report for the 2017/18 season*

According to Famine Early Warning Systems Network, most poor households in deficit-producing areas in the south, west, and extreme north are experiencing crisis food security outcomes as the 2018-19 lean season intensifies due to depleted own-produced food stocks, macroeconomic hardships, and increasing staple cereal and other food prices (See shaded areas in orange in Figure 5).

**Figure 5: Food insecurity status for October 2018 - January 2019**



Source: <http://fews.net/southern-africa/zimbabwe>

Some of the reasons behind expected low maize output are related to low productivity and poor rainfall pattern. Low productivity is a result of low investment in extension, research and development and sub optimal use of

**HIGHLIGHTS**

The Government should prioritise on investment towards boosting agricultural productivity not only for maize but other strategic crops like soya bean and wheat.

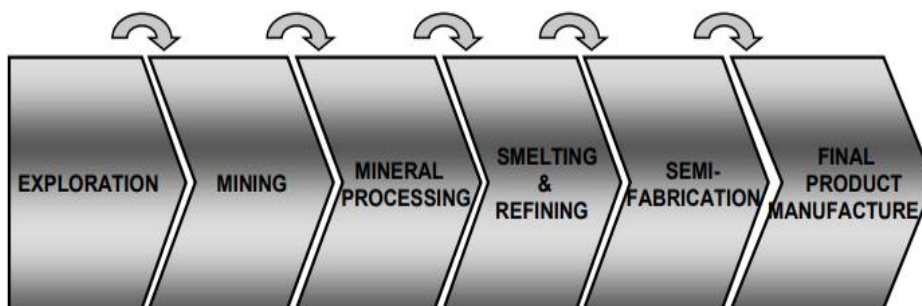
irrigation systems in Zimbabwe. This ultimately negatively impacts on agro-processed goods when compared to regional and international producers. This calls for Government to prioritise on investment towards boosting agricultural productivity not only for maize but other strategic crops like soya bean and wheat. This can be achieved through intensifying farmers to extension contact, irrigation as well as research and development towards climate change resistant varieties particularly small grain suitable for drier areas of the country.

## 4.2 Mining

### Beneficiation and value addition of Minerals in Zimbabwe

The mining sector is projected to grow by 26 percent in 2018 mainly driven by strong performance of gold, coal, chrome and diamond. Zimbabwe’s Vision 2030 entails transforming the country to an upper middle income status by 2030. This requires transforming the economy from an export dependent economy to production of value added products which are not prone to fluctuation of prices on the international market.

Beneficiation of minerals is the processing of mined ore to separate valuable mineral products from the associated waste rock or impurities. It is a subset of value addition in the mining sector with value per unit of mineral increasing at every stage of the mining value chain as shown in the figure below. Promoting local beneficiation and value addition of minerals provide manufacturing feedstock, requisite for driving industrial development and creation of jobs.



Zimbabwean mineral industry can broadly be described as one with low levels of mineral beneficiation, in that most of its minerals are exported as ores or semi-processed minerals rather than high value intermediate to finished products. Currently it is argued that Zimbabwe is at stage two of the resource

### HIGHLIGHTS

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based industrialisation phasing, which displays the decreasing importance of resource exploitation as the resource linkages are developed. Stage two is mainly entrenched in resource exploitation with limited beneficiation of minerals and value addition to finished products. Resource beneficiation and value addition is mainly undertaken at stages three and four, respectively. The African Union’s Africa Mining Vision of 2009 and the SADC Industrialisation Policy Framework adopted in 2015 highlight the need for natural resource rich countries to leverage on this comparative advantage and undertake beneficiation and value addition of minerals given that the mineral resources are finite.

Zimbabwe has limited capacity to value add minerals into manufactured products. There is need to invest in the beneficiation and value addition plants and tap into the local capacity that had been developed to beneficiate and value add some mineral commodities particularly base metals like nickel, chrome, copper, platinum group metals (PGMs), and iron ore. There is scope for upscaling the beneficiation and value addition of both base metals and precious minerals like gold and diamonds. The status and applicability of beneficiation and value addition of different minerals is presented in Table 3.

**Table 3:** Current and Potential Beneficiations and Value Addition Efforts in Zimbabwe

Gold	<p>Fidelity Printers and Refinery, a subsidiary of the Reserve Bank of Zimbabwe is currently refining gold ore to 99.5 percent purity before exporting it to the Rand Refinery. However, the volumes exported make Zimbabwe eligible to be readmitted to trade on the London Bullion market.</p> <p>Currently there are limited players producing jewellery with gold and silver e.g. Aurex Jewellery.</p> <p>Other uses of gold include manufacture of electronic products, gold coins, use of gold as money to store value, or as investment bars to hedge against inflation.</p> <p>Zimbabwe can use precious metals such as gold, PGMS and diamond to develop an integrated jewellery hub. This will add on jewellery which is currently produced from gold and diamond but on a smaller scale.</p>
Diamond	<p>Basic processing of diamond is taking place but is limited due to inadequate diamond allocation from the mining houses, given the requisite legislative allocation of 10 percent of total local production.</p> <p>Diamonds can be value added through cutting and polishing to produce more jewellery and tools.</p>
Chrome	<p>Chrome beneficiation is currently taking place through processing of chrome ore into ferrochrome, a raw material used in the production of stainless steel. It is also used in the chemical and foundry industry and as for refractory bricks for furnace lining.</p>

**HIGHLIGHTS**

**Zimbabwe has limited capacity to value add minerals into manufactured products.**

	In Zimbabwe opportunities are there to expand production of ferrochrome and stainless steel given that some chrome players already have refineries with excess capacity to produce more ferrochrome.
PGMs	<p>Mimosa and Unki are beneficiating up to concentrates whereas Zimplats is processing up to matte, a further process from concentrates. Efforts are there to process up to the Base Metal Refinery to comply with the Government of Zimbabwe's directive.</p> <p>The Government of Zimbabwe through the 2019 National Budget Statement proposed to charge staggered rates of between 1 percent and 5 percent export tax on un-beneficiated platinum depending on the level of beneficiation effective 1 January 2019. When the beneficiates up to Precious Metal Refinery (PMR) that's when they can be exempt from the export tax.</p> <p>Platinum can be used in the automotive industry to produce autocatalytic convertors for cars, industrial use and to produce jewellery.</p> <p>Opportunities are available to produce nickel copper and cobalt through a base metal refining. Further, through precious metal refining, there are vast opportunities to produce precious metal which can be used as investments or to be further developed into dental equipment. Smelting and converting can also produce off-gas which can be processed by an acid plant to produce acid.</p>
Nickel	<p>Nickel is smelted mainly at Bindura Nickel Corporation (BNC). A BNC smelter was being refurbished in 2017 to enhance nickel production in Zimbabwe.</p> <p>Nickel can be used in making coins and in industrial applications due to its unique combination of properties which include relatively high melting point, high resistance to corrosion and ability to withstand high and low temperatures. In stainless steel, nickel improves the stability of the protective oxide film that provides corrosion resistance.</p>
Iron and steel	<p>Vast iron ore available in Zimbabwe which can be processed into steel, stainless steel, manufacture of equipment, consumer goods and construction inputs.</p> <p>Government is making efforts to revive the Zimbabwe Iron and Steel Company (ZISCO) Steel through attracting potential foreign investors, as well as restructuring process.</p>
Coal	<p>Coal is beneficiated into coke in Zimbabwe. Beneficiation of coal can produce coal which is used for power generation in thermal power stations, agricultural purposes in curing tobacco, cement manufacturing and in the sugar industry. Coal can also be used to produce diesel and pharmaceuticals. Coke often used worldwide in blast furnaces. Coke making produces by-products such as tar and benzole products.</p>
Lithium	<p>Vast opportunities are available in Zimbabwe to produce lithium compounds such as batteries and pharmaceuticals.</p>
Phosphates	<p>Phosphates value addition opportunities exist to produce fertilizer and phosphoric acid.</p>

## HIGHLIGHTS

**The 2019 Budget proposed measures to be undertaken to support the mining sector.**

The 2019 Budget proposed measures to be undertaken to support the mining sector which include the following:

- Mining companies to be accorded greater access to foreign currency in order to avoid delays in the procurement of key raw materials and spare parts for machinery and equipment;
- Capacitating Fidelity Printers and Refiners to mop up all gold, through increasing gold buying and support centres across the country;

- Capacitating small scale miners, through access to equipment for hire and affordable credit lines and technical skills; Embracing interventions to reduce environmental, social and health impact challenges that arise in artisanal and small scale mining operations;
- Finalising amendments to the Mines and Minerals Amendment Act, which seeks to promote exploration and mining by revoking unutilised claims being held for speculative purposes;
- Harmonising mining taxation laws to ensure viability of the sector;
- Capacitating Hwange Colliery to fully embark on underground coal mining; and
- Resuscitation of idle and distressed mines under Zimbabwe Mining Development Corporation (ZMDC).

Pursuant to this, the mining output is projected to grow by 16.1 percent in 2019 and a further 15.3 percent in 2020, benefiting from strong performances mainly in gold, diamonds, chrome and coal.

### 4.3 Manufacturing

Following policy pronouncement which resulted in a lot of speculative activities, the country was characterised by shortages, as producers could not match demand for products. The shortages, which are mainly attributed to panic buying as consumers felt that the currency reforms would see their savings being eroded, saw government reconsidering the earlier protectionist regime where the importation of several basic products had been subject to the granting of an import licence.

Statutory Instrument 64 of 2016, which had now been replaced by Statutory Instrument 122 of 2017 which consolidated all regulations affecting imports, was repealed to allow consumers, retailers and producers with free funds to import products that were in shortage. On 29 October 2018, Statutory Instrument 237A of 2018 was, therefore, officially gazetted. A list of 29 products (Box 1) that were initially subjected to import licences can now be imported into the country, subject to the payment of the appropriate customs duty, mainly in forex as per latter provisions of 2019 Budget statement.

The entry of the goods into the country is expected to impose pressure on the manufacturing sector, which had been recovering, though sluggishly. For example, between February and September 2018, the importation of plant and

#### HIGHLIGHTS

On 29 October 2018, Statutory Instrument 237A of 2018 was officially gazetted. It provided a list of 29 products that were initially subjected to import licences can now be imported into the country, subject to the payment of the appropriate customs duty.

machinery that is used in the manufacturing industry<sup>1</sup> increased by about 39 percent to USD28.8 million compared to 2017. This shows that indeed the manufacturing sector was investing in expanding its productive capacity. The biggest challenge with the manufacturing sector is that it is not responsive fast enough to shocks which increase demand. For example, industry was calling for an increase in foreign currency so that they import raw materials to meet the increased demand during the speculation period. This generally shows that the current manufacturing models which are too import dependent are not sustainable as any economy is open to shocks which need quick adjustments.

**Box 1: List of products that can now be imported into the country without a licence**

- Animal oils and fats (lard, tallow and dripping);
- Baked beans;
- Body creams;
- Bottled water;
- Cement;
- Cereals;
- Cheese;
- Coffee creamers;
- Cooking oil;
- Wheelbarrows and wheelbarrow parts;
- Crude and refined vegetables oils, soya bean oil and vegetable fats;
- Fertilizers;
- Finished steel roofing sheets;
- Ice cream;
- Jams;
- Juice blends;
- Margarine;
- Mayonnaise and salad creams;
- Potato crisps;
- Packaging materials and plastic polymers;
- Peanut butter;
- Pizza base;
- Yoghurts;
- Palm fat;
- Shoe polish;
- Soap;
- Sugar;
- Sweets; and
- Synthetic hair products.

The coming in of imports is going to have a negative impact on the manufacturing sector, especially for companies that had not upgraded their productive capacities to withstand external competition. However, since the sector has been protected for more than five years now, this is an opportunity for the sector to be tested to assess the extent to which it has taken advantage of the protection regime to become competitive. Protection regimes are generally temporary and five years is a long time for firms to have invested in becoming competitive.

**HIGHLIGHTS**

The coming in of imports is going to have a negative impact on the manufacturing sector, especially for companies that had not upgraded their productive capacities to withstand external competition.

<sup>1</sup> Under HS Code from 8434 to 8448

#### 4.4 Tourism

The Government has indicated that it will target the following for the tourism industry in 2019:

- Promoting Zimbabwe as an international destination of choice;
- Addressing cost centres for tourism to increase tourism product competitiveness;
- Tourism product development to appeal and meet the needs of both the international and domestic market whilst increasing downstream expenditure; and
- Expediting the Tourism Special Economic Zones.

The Government is cognizant that implementing measures to improve perception of the country as a safe destination will be key as the country is gearing towards being an upper-middle income economy. Its efforts on this front have been spurred by Lonely Planet, a large travel guide book publisher which is guided by global travel experts. This publisher ranked Zimbabwe the 3<sup>rd</sup> safest destinations to visit in 2019 after Sri Lanka and Germany. The report further highlighted Zimbabwe's key tourism strengths including the fact that it is one of Africa's safest destinations, blessed with ultra-friendly locals, Big Five-filled national parks, World Heritage-listed archaeological ruins, forested mountains and the mighty Victoria Falls. The other strength that the country can ride on includes the ability by most Zimbabweans to speak English much needed for communication with foreign tourists. The Government is further aware of the need to maintain political and economic stability as well as preventing communicable disease scares such as Ebola, Cholera and Typhoid, among others all having a potential of damaging the country's image.

As also recognised by the Bank Group's, Zimbabwe Economic Report released in November 2018, the country's tourism sector potential remains hugely untapped in comparison to other countries such as Egypt that to a great extent rely on this sector for economic growth. According to World Travel and Tourism Council, the travel and tourism sector contributed USD 1.1 billion or 8.1 percent to Zimbabwe's GDP in 2016 with a share of total employment being 5.2 percent or 393,000 jobs. This is by far lower than the performance of the sector to the Egyptian economy where it contributed a total of USD 21.1bn or 11 percent to GDP with a share of employment being 8.5 percent or 2,425,500 jobs in 2017.

#### HIGHLIGHTS

As also recognised by the Bank Group's, Zimbabwe Economic Report released in November 2018, the country's tourism sector potential remains hugely untapped in comparison to other countries such as Egypt that to a great extent rely on this sector for economic growth.



An upper middle economy which Zimbabwe aspires to become implies increased disposable income of the local population hence the need to enhance investment to lift the face of the destinations and create more products for the new Zimbabwe in line with Vision 2030.

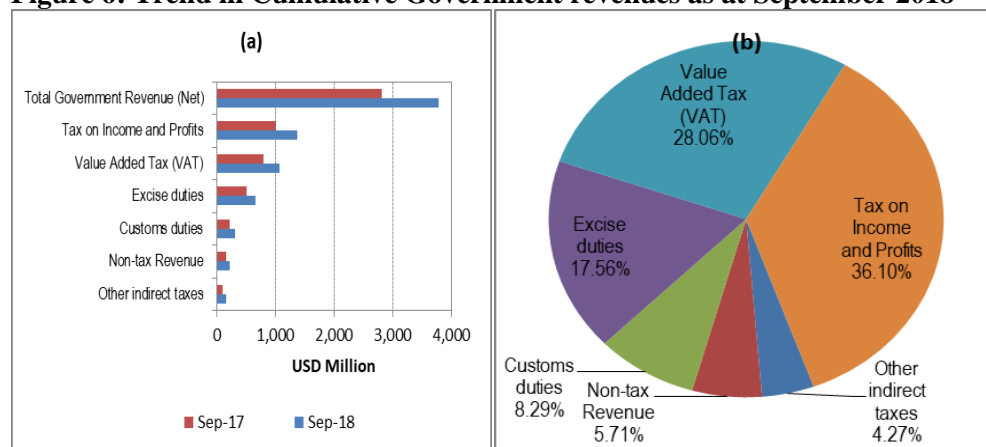
## 5. FISCAL POLICY

### Revenue performance

Total cumulative government revenue net of retention for the nine months to September 2018 stood at USD 3.77 billion against a target of USD 3.33 billion for the period. Year on year comparison shows that revenues grew by 34.1 percent compared to the same period in 2017. The growth in government revenue in 2018 was driven by the growth in all the tax revenue heads with taxes on incomes and profits and Value Added Tax (VAT) growing by 36.2 percent and 32.8 percent respectively (Figure 6a).

An analysis of government revenue contribution by revenue head shows that for the nine months to September 2018, taxes on incomes and profits was the major contributor towards total government revenue, accounting for 36.10 percent followed by VAT and excise duties which contributed 28.06 percent and 17.56 percent respectively. Non tax revenue accounted for 5.71 percent of total government revenue (Figure 6b).

**Figure 6: Trend in Cumulative Government revenues as at September 2018**



Source: Ministry of Finance and Economic Development

### Expenditure Performance

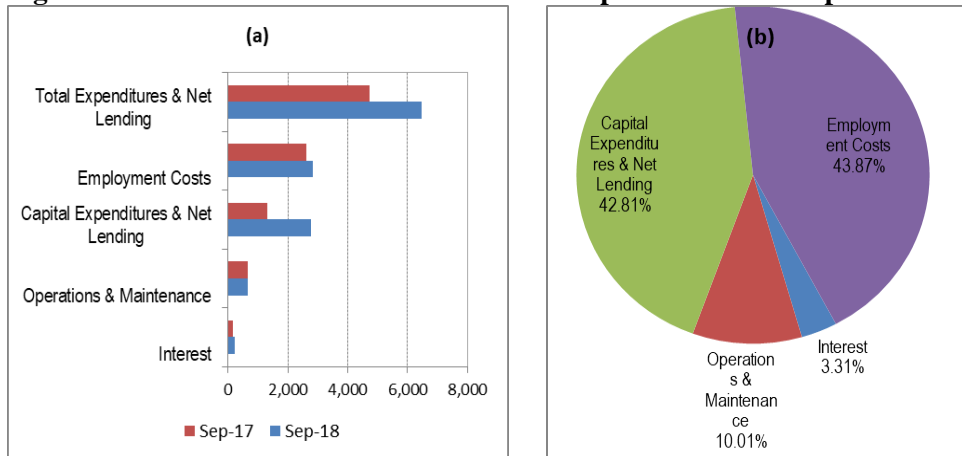
Total expenditure for the nine months to September 2018 grew by 37.3 percent to USD 6.47 billion from USD4.72 billion registered in same period in 2017. Expenditure for 2018 exceeded the target for the period by 58.9 percent during

## HIGHLIGHTS

An analysis of government revenue contribution by revenue head shows that for the nine months to September 2018, taxes on incomes and profits was the major contributor towards total government revenue, accounting for 36.10 percent followed by VAT and excise duties which contributed 28.06 percent and 17.56 percent respectively.

the comparative period. Growth in expenditure was mainly driven by growth in capital expenditure and net lending, and employment costs which grew by 113.7 percent and 8.9 percent whilst expenditure on operational costs declined by 2.4 percent (Figure 7a). Thus expenditure on employment cost and capital expenditure and net lending accounted for 43.87 percent and 42.81 percent respectively of total expenditure (Figure 7b).

**Figure 7: Trend in Cumulative Government Expenditure as at September 2018**



Source: Ministry of Finance and Economic Development

### Financing

The mismatch between government revenues and expenditure resulted in a cumulative budget deficit of USD 2.67 billion against a target of USD 715.39 million for the nine months to September 2018. The budget deficit grew by 40.2 percent from USD 1.91 billion accumulated in a comparable same period in 2017.

## 6. FINANCIAL AND MONETARY SECTOR

### 6.1 Stock Market Development

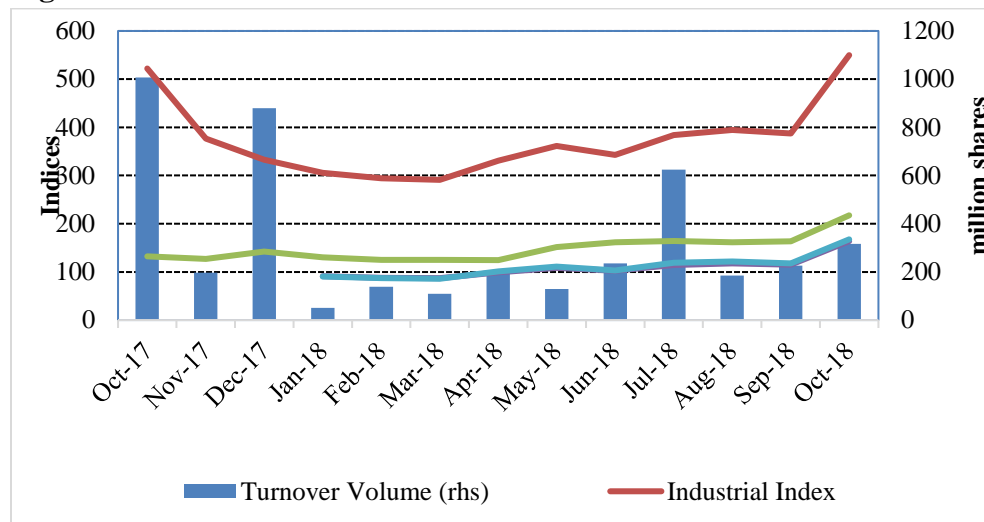
In the month of October 2018, Zimbabwe Stock Exchange performed strongly following speculative driven activities as investors sought safe haven for their savings. The Industrial, Mining, All Share and Top 10 indices closed high in the month, gaining 162.84 (42.1 percent), 53.58 (32.7 percent), 48.7 (42.3 percent) and 49.88 (42.4 percent) points respectively. Turnover volume on the other hand increased by 39.5 percent from 226.5 million shares traded in September 2018 to 315.9 million shares in October 2018.

### HIGHLIGHTS

The mismatch between government revenues and expenditure resulted in a cumulative budget deficit of USD 2.67 billion against a target of USD 715.39 million for the nine months to September 2018. The budget deficit grew by 40.2 percent from USD 1.91 billion accumulated in a comparable the same period in 2017.

On a year on year basis the industrial and mining indices, which closed the month of October 2017 trading at 521.85 and 132.49 gained 5.36 percent (27.96 points) and 64.04 percent (84.85 points), to close the month of October 2018 trading at 549.81 and 217.34 respectively (Figure 8). The strong performance of the stock exchange was mainly driven by the uncertainty around government policy to demonetize the Bond notes and electronic balances following its directive to financial institutions to create separate accounts for USD Nostro and USD RTGS balances which spooked economic agents. Investor therefore sought safe haven for their resources.

**Figure 8: Trend in the ZSE Indices October 2017 to October 2018**



Source: Zimbabwe Stock Exchange

Year on year comparison shows that the value and volume of shares traded on the Zimbabwe Stock Exchange in the month of October 2018 declined by 4.47 percent and 68.62 percent respectively from their levels in October 2017. Foreign investor participation on local bourse declined as both buys and sells declined. The value and volume of shares bought declined by 12.08 percent and 46.03 percent respectively. Foreign buys accounted for 27.67 percent of the turnover value a decline by 2.4 percentage points from its levels in October 2017. On the other hand, the value and volume of shares sold by foreigners also declined by 18.16 percent and 65.81 percent respectively.

The decline in foreign investor participation has been as a result of increased interest by local investors on the local bourse as an alternative investment destination. Market capitalisation which stood at USD 14.83 billion at the end of October 2017 increased by 21.11 percent to close the month of October 2018 at USD 17.96 billion (Table 4). The increase in market capitalization was

**HIGHLIGHTS**

Year on year comparison shows that the value and volume of shares traded on the Zimbabwe Stock Exchange in the month of October 2018 declined by 4.47 percent and 68.62 percent respectively from their levels in October 2017. Foreign investor participation on local bourse declined as both buys and sells declined.

driven by change in valuation of shares as a result of increased investor interest on the local bourse as a safe destination for their savings in light of the gloomy outlook of the Zimbabwean economy.

**Table 4: Summary of Stock market performance, October 2017 and 2018**

Date	Oct-17	Oct-18	Percentage Change
Turnover Value (USD)	168,828,632	161,283,352	(4.47)
Turnover Volume	1,006,788,402	315,911,359	(68.62)
Value shares bought by foreigners (USD)	50,758,266	44,626,568	(12.08)
Value shares sold by foreigners (USD)	82,210,037	67,283,362	(18.16)
Volume shares bought by foreigners	71,154,061	38,401,984	(46.03)
Volume shares sold by foreigners	175,051,666	59,843,163	(65.81)
Market Capitalisation (USD)	14,830,274,005	17,961,642,250	21.11

Source: Zimbabwe Stock Exchange

### Regional Stock market developments

In the month of October 2018, the Zimbabwe Stock Exchange indices were the best performing indices among selected regional stock exchanges. On the other hand the South African Johannesburg Stock Exchange (JSE) All Share Index and Lusaka All Share Index were the worst performing stocks in the region having lost 5.96 percent and 4.4 percent respectively (Table 5).

**Table 5: Summary of selected regional stock market performance October 2018**

Country	Index	Open	Close	Percentage Change
Zimbabwe	Top 10 Index	117.60	167.48	42.41%
Zimbabwe	All Share Index	115.12	163.82	42.30%
Zimbabwe	Industrial Index	386.97	549.81	42.08%
Botswana	Botswana SE DFS (DFSIBT)	1,061.75	1,069.23	0.70%
Kenya	NSE 20 Share Index	2,875.51	2,810.32	(2.27%)
Zambia	Lusaka All Share Index (LASI)	5,468.17	5,225.12	(4.44%)
South Africa	JSE All Share Index	55,708.47	52,388.87	(5.96%)

Source: Investing.com, selected stock exchange websites

### 6.2 Interest rates

Generally, the interest rates have declined compared to more than five years ago. The decline in lending rates is partly a result of the moral suasion by the Reserve Bank of Zimbabwe to reduce bank lending rates through a

#### HIGHLIGHTS

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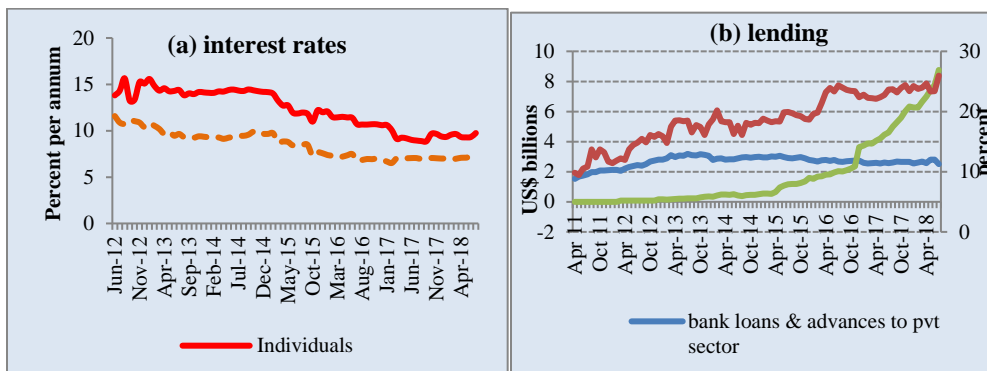
Memorandum of Understanding (MOU) with banks in 2013. Illustrations are provided in figure 9 below.

While the reduction in lending rates has reduced cost of capital for the productive sectors of the economy, there might be some pervasive effects too. There may arise concerns that the lending rates do not reflect the true cost of funds, hence reducing private sector lending, increasing non-productive lending to individual and increasing holdings of government securities which are relatively less risky. After the MOU became effective towards the end of 2013, lending to the private sector started declining while lending to government started increasing (Figure 9b). Lending to individuals has also increased significantly particularly in 2016 onwards. Loans to individuals are salary based and therefore relatively less risky.

HIGHLIGHTS

Since 2013, lending to the private sector started declining while lending to government started increasing.

**Figure 9: Bank lending interest rates and lending to individuals, private and public sectors**



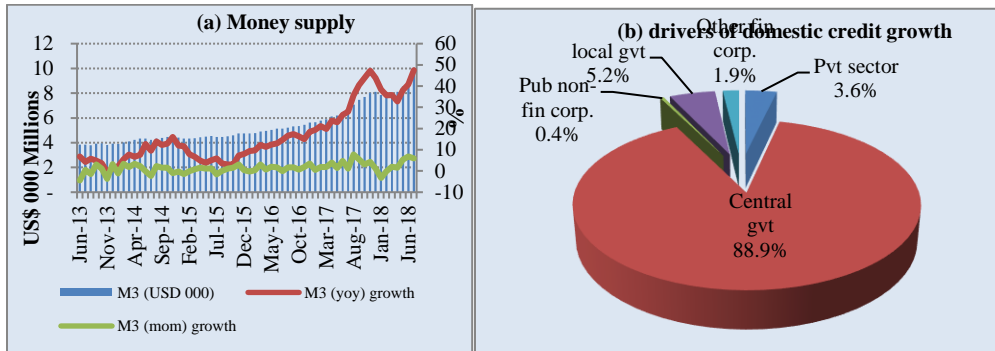
Source: Reserve Bank of Zimbabwe

### 6.3 Monetary developments

The stock of money grew by 47.5 percent annually and by 5.9 percent monthly to reach USD9.68 billion as at 31 July 2018 (Figure 10a). Domestic credit growth of 54.2 percent, mainly driven by credit by central government borrowing, was the main driver of money supply growth (Figure 10b).

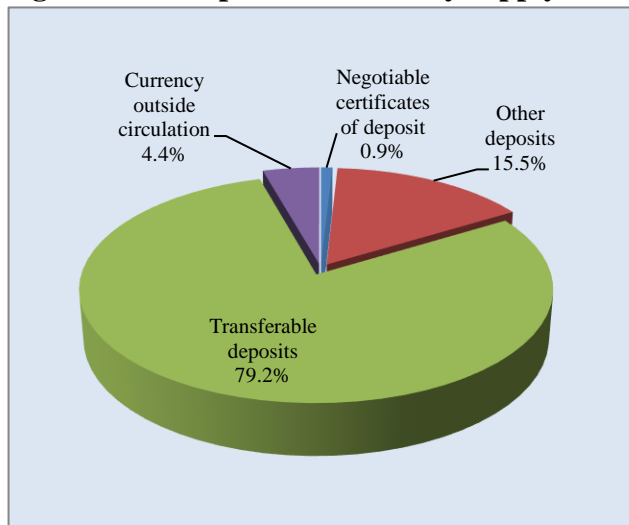
High government borrowing for recurrent expenditures is unhealthy for the economy as it may not improve the economy’s productive capacity and may crowd out private sector borrowing for productive purposes.

**Figure 10: Money supply (M3) and its growth drivers, June 2013 to July 2018**



Source: Reserve Bank of Zimbabwe

**Figure 11: Composition of money supply**



Almost 80 percent of the money supply is composed of transferable deposits (79.2 percent) – Figure 11. If such deposits are not stable, they may not support financing of long-term investment projects of the economy’s productive sectors. This appears to be the case in Zimbabwe; where most of the lending to the private sector has been deployed for short-term uses such as

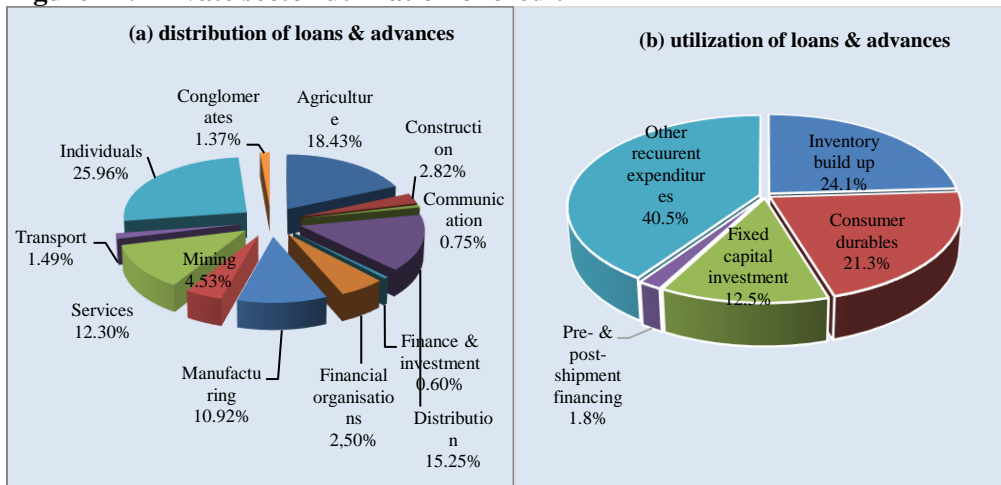
recurrent, inventory stock-ups and durables (Figure 12(b)).

As at 31 July 2018, loans and advances to the private sector was USD 2.51 billion, down from USD2.62 billion in July 2017. These loans and advances are dominated by individual loans which are fairly cheap and easy to administer and relatively less risky because they are salary based and repayments are automatically deducted from the account that receives the salary.

**HIGHLIGHTS**

Almost 80 percent of the money supply is composed of transferable deposits (79.2 percent).

**Figure 12: Private sector utilization of credit**

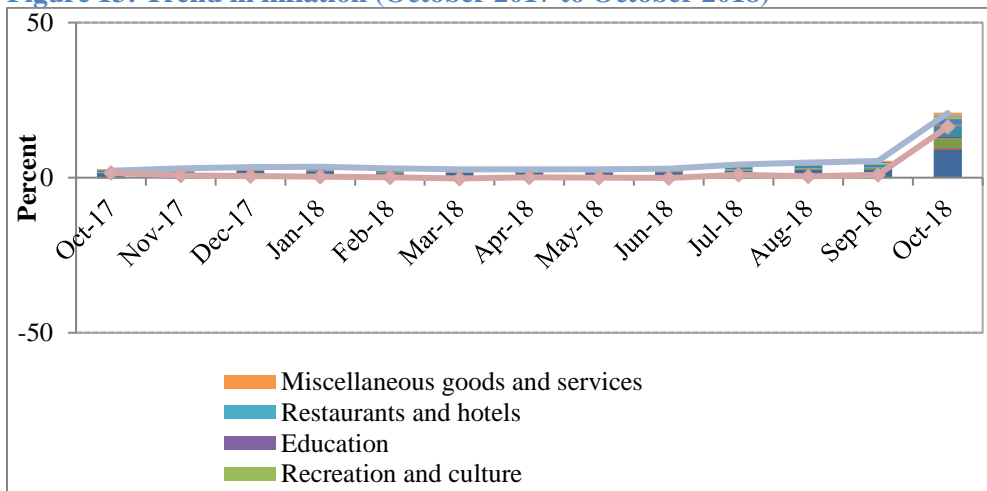


Source: Reserve Bank of Zimbabwe, July 2018

### 6.4 Inflation

The month of October 2018 saw both annual and monthly inflation rates reach unprecedented levels in the multicurrency period. Year on year inflation gained 15.5 percentage points to 20.9 percent in October from 5.39 percent recorded in September 2018. The increase in annual inflation was mainly driven by the increase in the prices of food and non-alcoholic beverages (26.8 percent), furniture, household equipment and maintenance (35.6 percent), clothing and footwear (53.8 percent) and recreation and culture (36.2 percent) which also contributed to 9 percent, 3.5 percent, 3.3 percent and 0.8 percent respectively of the weighted change in annual inflation (Figure 13).

**Figure 13: Trend in inflation (October 2017 to October 2018)**



Source: ZIMSTAT

### HIGHLIGHTS

The trend in inflation was driven by the depreciation in the unofficial exchange rate between the USD dollar and the bond notes and electronic balances as well as the failure by importers of consumer goods to access foreign currency, which exerted pressure on the informal market

On a month on month basis, the Consumer Price Index rose by 15.5 percentage points from 0.9 percent in the month of September 2018 to 16.4 percent in the month of October 2018 spurred by the increases in the prices of clothing and footwear (45.9 percent); recreation and culture (27.7 percent); furniture, household equipment and maintenance (26.9 percent); and food and non-alcoholic beverages (20.1 percent).

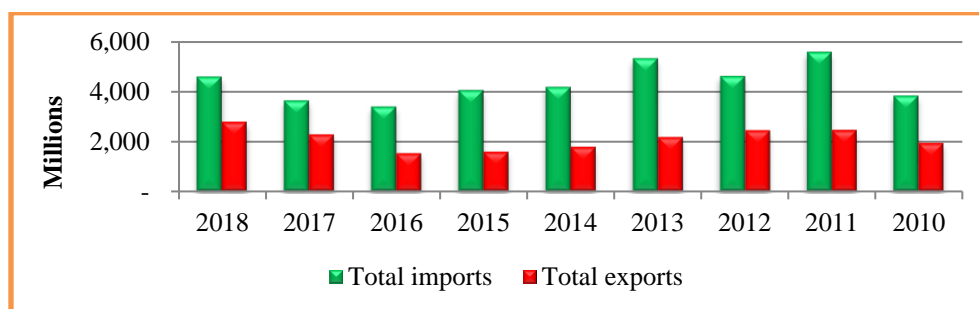
The trend in inflation was also driven by the depreciation in the unofficial exchange rate between the USD dollar and the bond notes and electronic balances as well as the failure by importers of consumer goods to access foreign currency, which exerted pressure on the informal market hence the perceived exchange rates tumble resulting in prices shooting upwards. Thus, the inflation outlook remains negative as annual inflation rate is increasing at a faster pace than previously anticipated. The 2019 budget projects an inflation rate of 22.4 percent in 2019.

## 7. EXTERNAL SECTOR AND DEBT

### 7.1 Exports, imports and balances

Trade statistics for the period February 2018 to September 2018 show that total exports were about USD2.76 billion, having increased by about 22 percent compared to exports recorded over the same period in 2017. This is a record level that the 10 month period under review has ever generated since dollarization in 2009. There was a general upward trend between 2010 and 2012 as firms responded positively to dollarization, which was an incentive to produce. However, since 2013 exports began to be characterised by a falling trend until they reached their record low of about USD1.5 billion in 2016 (Figure 14) before beginning an upward trend.

Figure 14: Total imports and exports for the period February to September, 2010-2018



Source: Reserve Bank of Zimbabwe

#### HIGHLIGHTS

Since 2013 exports began to be characterised by a falling trend until they reached their record low of about USD1.5 billion in 2016.



Total goods worth about USD4.59 billion were imported into the country during the period February to September 2018, which is a significant increase of about 27 percent compared to the levels that were recorded over the same period in 2017. Over the 10 month period, although imports have been increasing steadily since 2016, the imported values are still below the record level of about USD5.6 billion recorded in 2011. However, the worrying scenario is that the recovery of exports in 2016 and 2017 was also happening at a time when imports were also recovering, which has a negative impact on the net availability of foreign currency resources.

Since imports, which are higher, increased by a higher rate than exports, the trade deficit worsened over the period, underlining the continued net trade outflow of the scarce foreign currency resources. The trade deficit increased significantly by about 33.8 percent to about USD1.8 billion over the period compared to the same period in 2017. Export promotion measures thus need to also be accompanied by import containing measures to manage foreign currency availability.

## 7.2 Debt developments

The total public debt amounted to USD16.9 billion, of which domestic debt constitutes USD9.5 billion in October 2018. Between December 2017 and October 2018, domestic debt grew by about 33.8 percent from USD7.1 billion to about USD9.5 billion. Over the years domestic debt sharply increased from about USD275.8 million in 2012 to current unsustainable levels contributing 56.2 percent to total debt, overtaking external debt which contributed about 51 percent in December 2017.

The 2019 Budget reiterates fiscal anchors and targets, and further proposes penalties for noncompliance with the commitment to the Public Finance Management Act (PFMA) fiscal management provisions in line with the Transitional Stabilization Program (TSP) October 2018 – December 2020. The requirement builds upon the 2018 Budget which emphasised on macro and financial risks emanating from non-compliance with some borrowing legal requirements such as ceiling of debt to GDP ratio and central bank lending to the State, which are critical to curb ballooning of domestic and external debt.

### HIGHLIGHTS

The total public debt amounted to USD16.9 billion, of which domestic debt constitutes USD9.5 billion in October 2018. Between December 2017 and October 2018, domestic debt grew by about 33.8 percent from USD7.1 billion to about USD9.5 billion.

In line with Section 11(2) of the Public Debt Management Act (Chapter 22:21) requiring that total outstanding Public and Publicly Guaranteed Debt as a ratio of GDP not to exceed 70 percent at the end of any fiscal year, the 2019 Budget anticipates a decline in the total public debt due to the fiscal consolidation which is expected to reduce domestic borrowing and also the positive results anticipated from the re-engagement efforts.

## 8. TOPICAL/THEMATIC ISSUES

### 8.1 Building a New Zimbabwe: Targeted Policies for Growth and Job Creation

Over the last decade or so, Zimbabwe's economy has faced a number of headwinds resulting in a collapse in growth. Following the political transition in November 2017, the new Government requested the African Development Bank to urgently prepare an economic report on the country to support renewal and transformation. The Government also approached the Bank to assist and advice on re-engagement with the international community. The Bank responded positively to this request, as Zimbabwe is an important regional member country, strategically located in Southern Africa, with enormous potential given its generous endowments of natural resources, its stock of public infrastructure, and its comparatively skilled human resources.

The Bank therefore undertook economic and sector work in areas deemed critical for enhancing the country's competitiveness and public sector effectiveness. The resulting report, entitled "Building a New Zimbabwe: Targeted Policies for Growth and Job Creation," is part of the analytical work in Zimbabwe. It provides the Government with alternative growth scenarios to the year 2030. It also identifies sectors for potential investment to achieve sustainable and inclusive growth. It is premised on the assumption that the arrears clearance will be expedited for economic restoration to commence.

The report is important for several reasons. First, it provides the Government, the donor community, and the private sector with a detailed assessment of investment opportunities in Zimbabwe. Second, it proposes options to develop these opportunities and, in so doing, helps fill the gap created by the absence of sectoral investment priorities. Third, it can be used to inform and support the government's dialogue with donors and the business community about further development of these sectors. Increased coordination and partnership will improve the alignment of investments with the national objectives, as set out in Zimbabwe's Transitional Stabilization Programme (2018–20) and subsequent medium-term plans.

#### HIGHLIGHTS

The Bank launched a report, entitled "Building a New Zimbabwe: Targeted Policies for Growth and Job Creation," as part of the analytical work in Zimbabwe.

The report concretely suggests a three-pronged recovery and growth strategy anchored on: Eco-tourism, which is a low-hanging fruit towards a green economy; Special economic zones, which is a pillar of the whole recovery strategy; and Agriculture, which is “the foundation”. On the strength of these three, and on the back of greater macro-economic stability, the report forecasts an annual growth rate of above four percent between 2019 and 2030.

On the question of financing the above three-pronged economic strategy, the report suggests a model which is driven by trade aid and investment capital, as opposed to official development assistance, which is harder to come by anyway. This recommendation falls within Zimbabwe’s investment (both domestic and FDI) and export promotion thrust. The report treats investing in the development of infrastructure as a high priority, and suggests Zimbabwe needs to mobilize “patient capital” for that. By “patient capital”, the report figuratively refers to long-term infrastructural investment with a maturity of 10 years or more, much of which has tended to come from countries like China and India. Already, these two countries are Zimbabwe’s development and trading partners, and have been active in financing infrastructural projects, including in the energy sector.

## 8.2 Zimbabwe’s Doing Business score and rankings improves slightly

According to the 2019 Doing Business report, about one-third (107 reforms) of all business regulatory reforms were in the economies of Sub-Saharan Africa, hence a record for the region. The Doing Business index measures reforms in 11 areas which comprise of starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and labour market regulation.

Zimbabwe made a number of reforms which ended up improving the score and the ranking in the last three reports (see Figure below). Zimbabwe is rated among the 46 countries that implemented regulatory reforms that made it easier to do business in three or more of the 10 topics included in the 2019 report’s aggregate ease of doing business score.

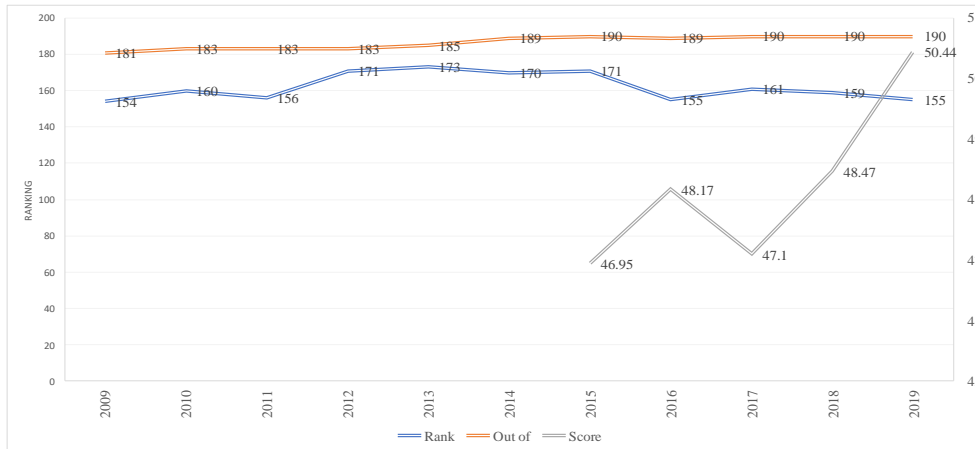
New Zealand tops the Doing Business rankings followed by Singapore, Denmark, Hong Kong SAR, China, and Korea republic in the top five. From the Sub-Saharan Africa region, Rwanda (ranking 29<sup>th</sup>) was the top reformer in

### HIGHLIGHTS

Zimbabwe is rated among the 46 countries that implemented regulatory reforms that made it easier to do business in three or more of the 10 topics included in the 2019 report’s aggregate ease of doing business score.

the history of Doing Business and again a top reformer for 2019 Doing Business edition, ahead of South Africa (ranked 82).

### Zimbabwe's Doing Business Ranking and Score, 2009 - 2019



Source: Doing Business Reports 2009 - 2019

Almost ten years ago, (in 2009), Zimbabwe was rated among top 10 countries among surveyed economies with costly business start-ups, difficulties in dealing with construction permits and huge costs associated with firing workers. Dismissal costs for a worker with 20 years of employment amounted to more than 8 years salary. Zimbabwe was also among the 15 economies that made dismissals costlier or more difficult. Obtaining building permits became more difficult in Harare since employees have been leaving the construction administration. Property registration was among the 10 costly among surveyed countries. Importing took more time and was regarded as costly. A number of reforms were undertaken as reported by the 2009 - 2019 Doing Business reports. A summary of reforms and issues regarded as part of making Zimbabwe's doing Business are outlined in the table below.

### Zimbabwe Doing Business Obstacles and Reforms undertaken since 2009

Doing Business Report	Reforms undertaken in broad terms	Actual reform
2009	Dealing with construction permits	Reforms on construction permits made doing business more difficult.
2010	One reform on registering property.	Zimbabwe made it easier to register a property through reduction in total cost from 25 percent of the property value to about 10 percent.

#### HIGHLIGHTS

Almost ten years ago, (in 2009), Zimbabwe was rated among top 10 countries among surveyed economies with costly business start-ups, difficulties in dealing with construction permits and huge costs associated with firing workers.

2011	<p>Starting a business</p> <p>Paying taxes</p> <p>Made trading across borders easier</p>	<p>Zimbabwe eased business start-up by reducing registration fees and speeding up the name search process and company and tax registration.</p> <p>It also reduced the corporate income tax rate from 30 percent to 25 percent effective 2010, lowered the capital gains tax from 20 percent to 5 percent and simplified the payment of corporate income tax by allowing quarterly payments</p> <p>The establishment of Chirundu one stop border post reduced congestion and delays at the border post. Procedures duplicated on each side of the border and involving up to 15 government agencies often required a wait of 2–3 days to clear goods. This led to trucking companies saving about USD140 per truck per day in fixed costs and driver’s time.</p>
2012		No reforms undertaken
2013		No reforms undertaken
2014		No reforms undertaken
2016	<p>Getting credit</p> <p>Protecting minority investors</p>	<p>The credit bureau began to provide credit scores.</p> <p>Zimbabwe strengthened minority investor protections by introducing provisions allowing legal practitioners to enter into contingency fee agreements with clients.</p>
2017	<p>Dealing with construction permits</p> <p>Labour market regulation</p> <p>Registering property</p> <p>Getting credit</p> <p>Trading across borders</p>	<p>In the area of construction, Zimbabwe streamlined the building plan approval process for construction permits by improving inter-agency coordination between the Harare City Council and architectural agencies.</p> <p>Seventeen economies including Zimbabwe improved their score on the quality of land administration index in 2015/16</p> <p>Zimbabwe significantly reduced the severance package for redundancy dismissals, which was previously among the highest in the world. The maximum duration of fixed-term contracts was left to the discretion of the Employment Council.</p> <p>Zimbabwe made registering property easier by launching an official website containing information on the list of documents and fees for completing a property transaction, as well as, a specific time frame for delivering a legally binding document that proves property ownership.</p> <p>Zimbabwe improved access to credit information by allowing the establishment of a credit registry.</p> <p>Zimbabwe made trading across borders more difficult by introducing a mandatory pre-shipment inspection for imported products.</p>
2018	<p>Making it easier to start a business</p> <p>Getting credit</p>	<p>In 2016, Zimbabwe launched an official website that includes a list of documents and fees required to complete a land transaction, as well as a specific time frame for delivering legally-binding documents proving property ownership.</p> <p>Starting a business was made easier by eliminating the requirement to advertise applications for a business license.</p> <p>Zimbabwe improved access to credit information by launching a new credit registry. However, credit scoring was discontinued, reducing access to credit information.</p>
2019	<p>Starting a business</p> <p>Dealing with construction permits</p> <p>Getting credit</p>	<p>Starting a business was made easier by reducing the time needed to obtain a business license.</p> <p>By issuing building permits through a one-stop shop, dealing with construction permits became faster.</p> <p>Zimbabwe improved access to credit information by increasing the coverage of the credit registry and providing consumer and commercial credit scores to banks and financial institutions</p>

	Enforcing contracts	Enforcing contracts were made easier by making judgments rendered at the appellate and supreme court level in commercial cases available to the general public online.
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Source: Doing Business reports 2009 - 2019

### 8.3 Zimbabwe’s 2019 Budget Highlights

The 2019 National Budget Statement was presented to Parliament on 22 November 2018. Key highlights of the budget are presented as follows:

#### *Economic outlook*

- The primary objective of the 2019 Budget is to stabilise the economy by targeting the fiscal and current account twin deficits which have become major sources of overall economic vulnerabilities including rising inflation, sharp rise in indebtedness, accumulation of arrears and foreign currency shortages.
- Revision of economic growth projection for 2018 to 4 percent from 6.3 percent due to noticeable growth slowdown in the second half of the year associated with foreign currency supply and allocation challenges, exchange rate misalignment, inflationary pressures, and the rebasing of the economy. Strong rebound in growth expected to reach above 7 percent from 2020.
- Growth of the mining sector, one of the key drivers of the economy which had an original growth projection of 6.1 percent for 2018, was revised to 25.8 percent in August 2018, and was revised further to about half of the August projection (13 percent) in November 2018.
- The recent re-basing of the economy resulted in a 40 percent jump in its size.
- The 2019 Budget prioritises infrastructure rehabilitation and development which ordinarily supports productive sectors. The target is to allocate 18.7 percent of the total budget to infrastructure development programmes (excluding agriculture), up from 16.5 percent of the previous year. Given that infrastructure is a key enabler to the economy, the 2019 priority projects have been selected through further engagements with line Ministries, Public Entities and stakeholders. The list also includes projects in the water and sanitation, housing and energy sectors.
- Some projects earmarked for development in 2019 include *upgrading of border posts*. This entails adopting the latest technology in border management, including e-enabled Integrated Border Efficiency Management Systems (IBEMS) together with One Stop Border Post expansion programmes. Priority is given to Beitbridge before cascading to the other

#### HIGHLIGHTS

The 2019 Budget is largely an economic stabilization and recovery policy masterpiece.

entry points such as Plumtree, Chirundu, Forbes, Nyamapanda, Victoria Falls and Kazungula Border Posts. The upgrading and modernisation of Beitbridge is underway, following the award of the contract to Zimborders Consortium.

### *Fiscal policy measures*

The target is to collect total revenues amounting to USD6.6 billion for the 2019 fiscal year and this is expected to be driven by tax revenue amounting to USD6.04 billion; non-tax revenues of USD162 million and other retentions amounting to USD400 million. Revenue enhancing measures to be undertaken include: revision of excise duty on cigarettes and fuel, payment of customs duty and all other taxes on imported motor vehicles in foreign currency with effect from 23 November 2018, save for imports of commercial motor vehicles and vehicles for use by the physically challenged, and payment of taxes in the currency of trade. Additional measures include liability for payment of tax debts of voluntarily wound up companies and revision of deemed income provision on satellite broadcasting services. The Minister also brought relief to tax payers through revision of Personal Income tax brackets, exemptions on Intermediated Money Transfer Tax, deferment of export tax on un-beneficiated platinum and customs duty on sanitary wear and the taxing of third party insurance towards a Road Accident Levy. The increase in tax free threshold from USD300 to USD350 and further widening of tax bands which saw the highest marginal rate being revised to 45 percent from 50 percent effective 1 January 2019. This is a positive development since it increases disposable income for income tax payers.

Total expenditure for the 2019 fiscal year is estimated at USD8.16 billion resulting in a budget deficit of USD1.57 billion or 5 percent of GDP, down from around 11.7 percent of GDP in 2018. Subsequently the budget deficit will be reduced to 4.1 and 2.9 percent of GDP percent in 2020 and 2021 and below 1 percent by 2025, making the budget compliant with the SADC threshold of below 3 percent of GDP. Furthermore, in order to contain costs the budget outlines other cost cutting measures such as the discontinuation of quasi fiscal operations; retrenchment of 3,188 youth officers by December 2018 and retirement of civil servants above the age of 65 years as well as a 5 percent cut on wages of senior government employees. Other measures include reviewing of the 13<sup>th</sup> Cheque payment criteria from 2018 by limiting payment to basic salary, rationalisation of Foreign Service Missions, by reducing them to 38 from 46 Embassies and Consulates by July 2019. The Minister also provided indications of Government intentions to centralize public funds and execute penalties for

#### HIGHLIGHTS

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financial misconduct by public officers in line with the Public Finance Management Act. The Minister further restricted the issuance of Treasury bills only for budget deficit financing and thus targeted to eliminate dependent on overdraft facility with the Central bank to 5 percent.

### ***Domestic and External Debt***

Domestic and external debt stood at USD9.6 billion and USD7.7 billion, respectively which translates to USD17.3 billion in total debt as at end of September 2018, as per the Budget statement. Of the external debt, interest arrears and penalties constituted about USD5.9 billion, which translates to about 76.6 percent of external debt. External debt is owed to bilateral and multilateral creditors. Bilateral creditors constitute about 61.8 percent of external debt, followed by multilateral creditors (World Bank, African Development Bank, European Investment Bank and others) at 33.5 percent with the remainder as Reserve Bank of Zimbabwe assumed debt. The bulk of the bilateral creditors' debt (69 percent) is owed to the Paris club whereas the balance is for the non-Paris club. Of the multilateral debt, the African Development Bank is owed about USD687 million, whereas the European Investment Bank, the World Bank and others are owed USD322 million, USD1.48 billion and USD72 million, respectively. The bulk of domestic debt is in Treasury bills, issued for recapitalization of public enterprises, settling Government obligations, Reserve Bank of Zimbabwe debt assumption and Government overdraft with the Reserve bank. The overdraft increased by 78.6 percent to USD2.5 billion by September 2018 from USD1.4 billion in December 2017. The implementation of reforms under the Transitional Stabilisation Programme is expected to focus on arrears clearance strategy and unlocking new concessionary financing.

### ***Agriculture highlights***

The Government allocated USD668.5 million towards the agricultural sector, representing 8.1 percent of the national budget. Whilst this is marginally lower than the Government's commitment of 10 percent in the Malabo Declaration, it is quite reasonable in view of the current fiscal position and the quest to contain the fiscal deficit.

The focus of government efforts towards this sector are to increase productivity; reduce fiscal expenditure on input and market support initiatives that it formally implemented in the sector; and provide social security to vulnerable households. This is in line with the provisions of the Transitional Stabilisation Programme

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(October 2018 – December 2020). The decision to target its efforts was driven by high default rates by beneficiaries to the various government programmes and the high fiscal deficit caused by agricultural support thereby triggering macroeconomic instability. Agricultural support for example more than doubled from a planned annual target of USD404 million to USD1.1 billion as at August 2018. Agricultural productivity is low in most of the crops produced in Zimbabwe.

Seed for major crops such as maize, soya and wheat is adequately available to meet national requirements while provisions have been made in the budget to close the fertilizer gap through importations.

The budget further highlights Government's commitment to compensate former farm owners who lost their farms through the land reform programme. As much as USD53 million has been allocated for this while more sustainable measures are being explored. This is a welcome development which has potential to enhance the country's rating on the ease of doing business and convincing potential investors that Zimbabwe is a potential destination for investment.

Government also proposed establishment of agricultural commodity exchange to correct market distortions caused by its price support to farmers on maize, soya bean and wheat among others.

### ***Mining sector***

Foreign currency earnings from mining was USD2.3 billion in the first nine months of 2018, and are expected to reach USD2.9 billion by year end. In the same vein, the Reserve Bank has reviewed upwards the retention thresholds of foreign currency to 55 percent from the 30 percent, a positive development meant to boost their productivity. The Government is finalising the mineral value addition and beneficiation policy which is meant to improve smelting and refining of minerals in Zimbabwe. The Government has once again postponed the tax on unbeneficiated platinum with effect from 1 January 2019 and pushed it further to January 2022 (see Table below). Under the new terms mining companies are expected to set up a base metal refinery by December 2021 and a precious metal refinery by December 2024. This is because Vision 2030 is anchored on beneficiation and value addition of minerals.

The 2018 gold projection has been raised to 33 tonnes for 2018, against a previous gold deliveries target of 30,000. The projection for 2019 is 35.31 tonnes, a 7 percent increase from the 2018 gold projection figure. On state enterprises and

#### HIGHLIGHTS

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parastatals reform, 17 ZMDC subsidiary mines are targeted for partial privatisation, joint Ventures, Partnerships and listings.

### Proposed Taxes on unbeneficiated PGMs

Level of Beneficiation	Export Tax (%)
PGM Concentrate	5
White Matte	2.5
PGM and Base Metal	1
Precious Metal Refinery	0

Zimplats, has shelved its USD131 million refurbishment of Selous Base Metals Refinery to pave way for a national refinery which will have concentration, smelting and base metal and precious metal refining capabilities, which will be used by all miners. The Government offers support to this activity through fiscal incentives to ensure that the refinery is set up within the proposed time frame.

African Chrome Fields invested over USD50 million in the alumino-thermic chrome processing plant in Kwekwe, with capacity to produce high grade chrome without using electricity. This is in response to the redistribution of claims surrendered by ZIMASCO to Government.

It is expected that the national diamond policy will be launched before year end to pave way for more investments into the sector. Government intends to unbundle the Zimbabwe Consolidated Diamond Company (ZCDC) which started operation in February 2016 following a move by Government to merge all the diamond companies in Chidzwa; setup a Diamond Industrial Park in Mutare and promote establishment of diamond cutting and polishing firms. This intended to increase beneficiation and value addition of diamonds locally as opposed to the current situation where only 10 percent is reserved for local cutting and polishing.

The amendments to the Mines and Minerals Act are being reviewed following Cabinet’s recommendations. The amendments are meant to promote exploration and mining by revoking unutilized claims being held for speculative purposes and harmonise mining taxation laws, with the objective of guaranteeing viability of mining companies. Automation of the Mining Cadastre Information System is expected to continue in 2019.

### HIGHLIGHTS

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Targeted mines for resuscitation in 2019 include Shabanie and Mashaba Mines where preliminary report indicates that at least USD20 million is needed to restart the two mines. Government, through the ZMDC has, therefore, started reprocessing of asbestos ore dump with the objective of raising funds to reopen Shabanie and Mashaba Mines. Other mines being resuscitated include the Elvington Gold Mine, Chegutu, Jena Gold Mine and other ZMDC mines.

In order to address the issue of multiplicity of mining taxes, the Government intends to develop a new mining fiscal regime, to determine the optimal taxation for the sector. This is done in line with the Ease of Doing Business Reforms, since the issue had been pending for over a decade. To enhance transparency in management of natural resources, the Government is considering joining the Extractive Industries Transparency Initiative (EITI). Zimbabwe's neighboring countries, Mozambique, Zambia and Malawi are already members. The initiative is meant to enhance extractive industry value chain information disclosure, from the point of extraction to revenue realisation. The Zimbabwe Mineral Revenue Transparency Initiative (ZMRTI), local version of EITI which was set up in 2011 failed to take off.

Despite artisanal and small scale miners contributing more to gold deliveries to Fidelity Printers and Refineries, the country's gold buying agent, these miners cause environmental degradation. Government intends to compel recipients of loans from Mining Loan Fund availed through Fidelity Printers and Refineries to rehabilitate the environment in 2019.

### ***Financial sector***

The financial sector is projected to grow by 0.9 percent down from the initial projection of 1.3 percent made in the mid-term fiscal policy review due to lower expected growth in 2019. However, the budget statement has proposed a number of initiatives that will boost confidence in the sector and therefore promote the growth in the sector. These initiatives include:

- Financial sector regulatory authorities will strengthen macro-prudential and risk based supervision in line with international practices.
- The government will enact legislation that will enforce and guide the compensation of policy holders who were prejudiced in the conversion from the Zimbabwe dollar era into the multi-currency era.
- Introduction of prudential supervision of medical aid societies and legal aid societies by IPEC to protect the investing public.

### HIGHLIGHTS

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- Introduction of the Policy Holder Protection Fund to protect clients in the insurance and pension industry.
- Introduction of reforms that will reduce the administration costs of parastatal-related self-administered occupational pension funds.
- Improving efficiency in the administration of industrial or sector specific pension funds established through collective bargaining by introducing competition in the administration of such pension funds.

The budget statement has also proposed to increase the prescribed asset thresholds for insurance companies and this will boost revenue mobilisation for crucial national projects. The review of licensing regime of credit-only micro-finance institutions from one year to five years would promote investment into the sector as it reduces costs and eases doing business in the subsector.

### ***Other measures***

Other measures announced in the 2019 Budget Statement include the following: USD30 million allocated as seed money for the Industrial Development Fund as Venture Capital to enable Industrial Development Corporation to undertake its mandate; Exemption of export tax on raw hides with effect from 1 January 2019; Introduction of additional routes for electronic cargo tracking; and penalty for failure to pre-clear goods at the border.

## **9. CONCLUSION**

The key issues that the GOZ should aim at addressing include:

- Restoration of macroeconomic stability;
- Addressing the debt arrears situation, particularly the scheduled clearance of arrears to multilateral creditors;
- Measures to improve the investment climate, including restoration of property rights through scaling up of the ease of doing business reforms.

The Bank Group is continuing its engagement with the Government and development partners aimed at reaching a solution on Zimbabwe's debt arrears clearance.

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