Country Brief-Zimbabwe
September 2017

Introduction

The Republic of Zimbabwe is located within the heart of southern Africa, between the Zambezi and Limpopo Rivers. It is bordered by four countries including South Africa to the south, Botswana to the west and southwest, Zambia to the northwest, and Mozambique to the east and northeast. Although it does not have a physical border with Namibia, only about 200 metres of the Zambezi River separates the two countries. The country has an area size of roughly 390,757km^2 and a population of 16 million people. Zimbabwe has 16 official languages, with English, Shona, and Ndebele the most commonly used. The agricultural and mining industry are key sectors for Zimbabwe's economy. The main exports are tobacco, cotton and sugar, gold, platinum and other metal alloys. Zimbabwe also mines coal which is one of its main sources of energy.

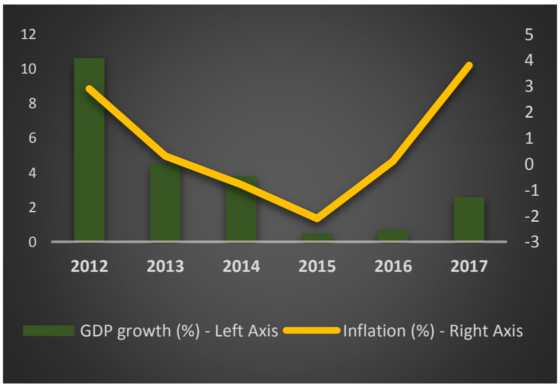
Political Environment

President Robert Mugabe, who emerged as a national hero from the liberation struggle not just in Zimbabwe but across the whole continent, has presided over the country since independence. Throughout his tenure as President of Zimbabwe starting in 1987 he has promoted a development model underpinned by the rise of local content and one that strengthens ownership of the democratic and political process. While such a model has expanded and sustained the political base of the ZANU-PF—the ruling party, it has been less welcomed by a handful of countries in the international community, mainly in the West. In 2000, these countries imposed economic sanctions on Zimbabwe as a leverage for policy changes as well as political and democratic reforms. These sanctions have remained in effect since then. The next general election scheduled to be held between 23 July and 21 August 2018 will provide the opportunity to reassess the impact and effectiveness of political reforms undertaken by the government under its local content programme and ownership of the development process.

Economic Overview

GDP: After experiencing a steady decline in its growth performance over the last few years (specifically since 2012) owing to a number of factors including the difficult political environment and the adverse impact of the end of commodity super-cycle, economic activity in Zimbabwe picked up marginally during 2016 and continued in the first half of 2017 as the real sectors of the economy, somewhat recovered. The economy is expected to grow by 2.6% in 2017, buoyed by anticipated growth in agriculture, mining and tourism as well as anticipated moderate improvements in international commodity prices. Agricultural output is projected to grow by 21.6%, on account of a combination of favourable weather and the positive financial impact of the Presidential and Command Agricultural input programmes. The mining and tourism sectors are recovering due to the relative stability in international commodity prices and improving competitiveness. The manufacturing sector capacity utilization has been enhanced, with the agro-processing industry having positive spill-over effects from an improved agricultural season alongside the revival of around 350 firms in the manufacturing sector that are benefiting under the Government's localisation policy. With these developments, real GDP is projected to post 4.1% growth in 2018.

Figure 1: GDP Growth and Inflation



Source: IMF World Economic Outlook (2017)

The key downside risks to the outlook relate to renewed uncertainty surounding the outcome of the 2018 elections and the costs of sanctions, should the enforcement regime continue, tight liquidity and a shortage of cash.

Inflation: Following a period of hyper-inflation in 2008 and 2009 Zimbabwe abandoned its currency and moved to a multi-currency system in 2009, with the US dollar, the rand, and other international currencies becoming legal tender. Inflation stabilised to average around 3 percent from 2010 to 2013 before the economy entered a period of deflation from 2014 to 2016, with price levels falling by an average of 1.4% per annum over the period. Zimbabwe's inflation returned to positive territory in January 2017 and has continued throughout 2017, with higher food prices sustaining inflationary pressures. Inflation is expected to remain positive and pick up over the year as import price pressures rise and government spending increases in the run-up to the 2018 elections. The IMF forecasts 2017 inflation at 3%, rising to 6% in 2018.

Fiscal balance: The lingering effect of recent adverse shocks associated with the commodity super-cycle and internal liquidity challenges related to the dollarisation of the economy have resulted in a deterioration of the country's fiscal balance. With annual fiscal expenditures increasing by 5% of GDP in 2016 and revenues falling by 2%. At the same time public debt reached almost 70% of GDP. The expansionary fiscal stance whichcurtailed net capital flows, and declining investor confidence, have resulted in cash shortages. In response the government has introduced capital account controls and quasi-currency instruments in the dollarized economy. Owing to some of the challenges highlighted, the fiscal balance has remained largely above an 8% deficit. An expected rebound in farm production and rising gold and chrome production, in addition to effective implementation of reforms, are projected to enhance the government's revenue base and improve its fiscal position. To place the fiscal deficit on a sustainable trajectory, the authorities are prioritizing expenditure rationalization and revenue enhancing measures.

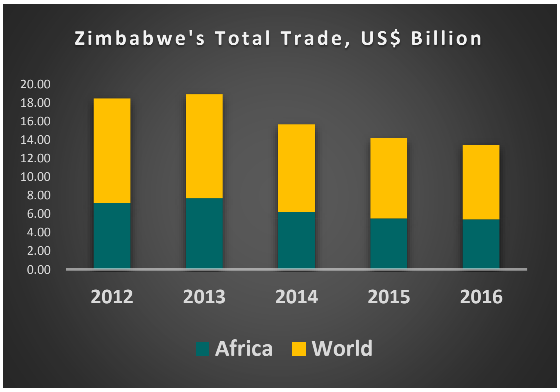
Overview of Trade, Reserves and Financial Sector

Total Trade: Zimbabwe is the 122nd largest export economy in the world and the 88th most complex economy according to the Economic Complexity Index (ECI). In 2016, Zimbabwe exported US$2.8 billion and imported US$5.2 billion, resulting in a negative trade balance of US$2.4billion. The leading exports of Zimbabwe are Gold, Raw Tobacco, Ferroalloys , Diamonds, and Raw Sugar. Its top imports are Refined Petroleum, Packaged Medicaments, Delivery Trucks, Corn and Cars.

Zimbabwe remains an important player within the Southern African Development Community (SADC) as well as the Common Market for Eastern and Southern Africa (COMESA). The top export destinations of Zimbabwe are South Africa, Mozambique, China, the United Arab Emirates and Zambia. The top import origins are South Africa, Singapore , China , Zambia and India.

Intra-African Trade: Trade with Africa is significant, and accounts for about 90% of exports and over 50% of imports, positioning Zimbabwe as the 9th ranked player in cross-border continental trade. The country's 10 major exports to African countries include, tobacco and manufactured tobacco substitutes, natural or cultured pearls, ores, slag and ash, iron and steel, sugars and sugar confectionary, salt and sulphur, nickels and related articles, cotton, wood and wood products, and coffee, tea and spices; while its imports from African countries were dominated by mineral fuels, cereals, machinery and mechanical appliances, vehicles other than railway, animal and vegetable fats and oil, platics and related products, iron and steel, electrical machinery and equipment and parts, fertilizers, and residues and waste from the food industries. The leading African trade partners include South Africa, Mozambique and Zambia.

Figure 2: Zimbabwe Total Trade



Source: ITC Trade Map (2017)

Current and capital account balances: Notwithstanding the challenges facing the economy, the country's current account balances have witnessed considerable improvement since 2013. From a deficit of 15.6% recorded during 2013 at the height of the economic crisis, there has been a gradual but steady improvement in Zimbabwe's current account position with the deficit narrowing from 9.3% in 2014 to 3.6% in 2016.It is projected to improve further to 0.8% in 2017.

The improvement since 2013 can be attributed to changes in the global economic environment, in a context of stronger export revenues, driven by rising tobacco prices and production. In addition, effectiveness of economic reforms has also contributed to recent improvements especially the gradual de-dollarisation of the economy. Further, the move towards a multi-currency system has reduced the risk of capital flight and freed up hard currency for imports, including capital goods in support of investments and aggregate output expansion.

Reserves: Despite the improving economic environment, Zimbabwe's gross international reserves have remained relatively low, owing to structural trade deficits and limited availability of liquidity which has resulted in frequent drawdown of the country's gross international reserves. As of end-2016 foreign reserves stood at US$310 million, down from US$339 million in 2015, covering only about two weeks of imports of goods and services (the IMF estimates that the adequate reserve level for Zimbabwe is about 3.9 months of imports since as a resource-rich economy, export revenues can be very volatile in addition to the dollarisation of the economy).

Exchange rate: In late 2016, the government issued the first tranche of its new legal tender, the bond notes. The notes, valued at par with the US dollar, are providing needed liquidity to the economy while reducing the risk of capital flight associated with the dollarisation of the economy. The notes are local currency that is being issued to ease the prevailing cash shortages in the economy. The improving macroeconomic environment over the last few months, including availability of hard currency and level of inflation, have somehow eased concerns associated with the bond notes.

Financial Sector:
Zimbabwe's financial sector is largely dominated by banks. Total assets held by the 13 commercial banks are equivalent to almost 50 percent of GDP, of which nearly 24 percent are held by the 6 foreign-owned banks. Foreign-owned banks account for 42 percent of the market share, while one domestically-owned bank has more than 30 percent. On average, 50 percent of banks' income is interest based, while around 40 percent originates from fees and commissions.

The Reserve Bank of Zimbabwe (RBZ) posits that the banking sector performance was satisfactory during 2016, as reflected by the improved performance of key metrics, including: earnings, profitability, liquidity, capitalisation, deposit growth and steady decline in NPL ratios. After its establishment, the Zimbabwe Asset Management Corporation (ZAMCO) has contributed to reducing the non-performing loans (NPLs), thereby stabilising the banking sector after acquiring NPLs worth about US$898.57 million from all banks as at 30 June 2017. The improvement in NPL ratios is also attributed to enhanced credit risk management practices by some banks.

Notwithstanding the relatively high average prudential liquidity ratios recorded across the sector, the banking industry continued to experience underlying shortages of physical US dollar cash. The cash constraints are a manifestation of the structural challenges facing the economy, including widening trade deficits; the high recurrent fiscal expenditures (particularly employment-related costs), which result in increased demand for cash; and the growth of the informal sectors of the economy where most transactions are still being conducted on a cash basis.

A recent IMF Article IV Consultation notes that subject to resource constraints, the authorities are pressing ahead with structural reforms aimed at enhancing the country's investment appeal. In this regard, their policy priorities are currently directed towards the ease of doing business reforms.

In the context of a dollarised economy, other key policy actions to reduce the cost of doing business are aimed at reducing the real exchange rate overvaluation to improve competitiveness. Turnaround times have been reduced for: starting a business—from 90 to 15 days; approval of construction permits—from 448 to 120 days; and property registration—from 36 to 14 days. The attraction of foreign direct investment ranks high on the authorities' development agenda. In this respect, the authorities are finalizing the establishment of the "One Stop Investment Shop" to streamline routine investment procedures and expedite approval processes.

Completion of on-going projects to expand hydropower generation capacity and improve the road network to support cross-border trade are also expected to reduce the cost of doing business. Further, the government passed into law the Special Economic Zones Bill in 2016 to help boost foreign direct investment and promote diversification. These enclaves offer flexible labour laws, and simplified processes related to the granting of residence and work permits. While the government is attempting to improve the ease of doing business climate, investors are still elusive. According to UNCTAD, FDI flows into the country are yet to pick up with latest data showing FDI into Zimbabwe valued at $421 million in 2015, down from $545 million in the previous year.

Opportunities for Bank Support

Zimbabwe, a founding shareholding member of the African Export-Import Bank has continued to play an important role in the operations of the Bank. Several high profile Bank meetings have been held in Harare which has also hosted its first Regional Branch Office. During the country's isolation period and associated economic challenges when multilateral engagement from the Western World was stalled Afreximbank stepped in with a Country Programme worth about US$1 billion to assist in rebuilding the economy. In addition, Zimbabwe has remained among the top 3 highest beneficiaries of the Bank's various products and facilities. For instance, the Bank has supported infrastructure development, agriculture, trade finance, services and hospitality and the financial services and banking sectors among others. With the assistance of the Bank, Zimbabwe's arrears clearance and debt refinancing plan was approved by the World Bank, the African Development Bank (AfDB) and the IMF in April 2017. During this period of economic challenges, Afreximbank shall continue to support recovery programmes rolled out by the Government, including the proposed establishment of industrial parks and special economic zones to accelerate the process of industrialisation and diversification of exports with a view to mitigating the country's recurrent exposure to adverse commodity terms of trade shocks.

Table 1: Zimbabwe: Selected Macroeconomic and Financial Indicators

	2012	2013	2014	2015	2016	2017F	2018F
Real GDP (%)	10.6	4.5	3.8	0.5	0.7	2.6	4.1
Inflation (%), Annual average	2.9	0.3	-0.8	-2.1	0.1	3.8	5.5
Exports of Goods and Services (USD billion)	4.0	3.86	3.72	3.61	3.64	3.93	n/a
Fiscal Balance (% GDP)	-1.2	-2.4	-1.8	-1.9	-9.1	-7.8	-8.6
Total International Reserves (USD million)	398	284	303	339	310	221	201
Months of Imports of Goods and Services	0.6	0.4	0.5	0.6	0.6	0.4	0,4
Gross Gov't debt, (% GDP)	87.8	82.4	76.7	106.8	115.6	n/a	n/a
Current Account Balance (% GDP)	-12.9	-15.6	-15.1	-9.3	-4.1	-3.6	-0.8

Source: IMF and African Economic Outlook (2017)