Zimbabwe Economic Snapshot H2, 2017

Trade & Investment SWOT

Strengths	Weaknesses
Zimbabwe offers a number of tax incentives to new foreign investors, particularly to investors in special economic zones.	The judiciary may be viewed as not being completely impartial, with some judges being appointed for political reasons.
Despite the recent resignation of President Robert Mugabe the political environment has remained relatively stable since 2009	Foreign investment remains constrained due to restrictions on expatriates.
Zimbabwe's proximity to South Africa is beneficial for trade.	Intellectual property rights infringements go largely unpunished.
High density of bank branches translates to high availability of financial services and financial inclusion through innovative products supported by mobile banking services.	Imports and exports are being constrained by inadequate transport infrastructure, trade bureaucracy and liquidity shortages.
Opportunities	**Threats**
The country's coordination with the UN on intellectual property initiatives has the potential to improve investor protection.	A lack of clear guidelines surrounding the country's 'Indigenisation' Act and the use of US-dollar pegged bond notes will likely continue to deter foreign investment in the medium-to-long term.
Government's fight against corruption could raise attractiveness for foreign investors.	Inefficiencies, a dearth of skills, infrastructural deficiencies and the pervasive influence of vested interests mean the business environment will remain challenging.
One Stop Shop which improves the turnaround time for applying for business licences and getting information on Zimbabwe.	A highly volatile economic environment with a lot of uncertainties regarding currency.
A new government is currently being formed with high expectations regarding policy reforms to turn around the economy.	The country goes for general elections in 2018 and previous elections have been characterised by disagreements among the contestants.

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector in Zimbabwe is integral to the country's economy as it employs the majority of residents. The agricultural sector is focussed on tobacco (for export) and food crops (for domestic consumption). The secondary sector is of importance for Zimbabwe's economic development, since mining brings in half of the country's export earnings through the extraction of precious and other metals. The tertiary sector is largely dependent on primary industrial activities (such as farming and mining) as well as manufacturing, is susceptible to problems that have seen companies lay off many of workers or shutting down over the past two years. The tertiary sector is the largest in the country and makes up 57% of gross domestic product (GDP). According to the World Travel and Tourism Council (WTTC), the total contribution of tourism was 8.1% of GDP in 2016.

Recent economic developments –The International Monetary Fund (IMF) was earlier in 2017 expecting economic growth of only 2% during the year, but revised higher this figure during October to 2.8% as the country's cereal production is estimated to have increased threefold in the 2016/17 farming season. Zimbabwe recently witnessed a change in its leadership after the resignation of long serving President Robert Mugabe in November 2017 after 37 years in power. The change, which saw the swearing in of Emmerson Mnangangwa as the country's new president, with this development expected to usher in new economic development and improve investor's sentiments towards the country. Ministry of Macro-Economic Planning and Investment Promotion Permanent Secretary Judith Kateera commented in October 2017 that the creation of SEZs are expected to attract foreign direct investment (FDI) and translate into export-led economic growth in the landlocked country. The government adopted the SEZ Act in October 2016 and rolled out consultative meetings and sensitisation workshops for stakeholders in the latter part of 2017. Premier Tobacco Auction Floors said near the close of the auction season that it expected tobacco exports to increase in value from $933 million in 2016 to $980 million in 2017. The improved harvest supported a smaller current account deficit during the year. The IMF indicated in a statement during July that efforts to freeze government salaries and public sector hiring were underway in Harare. Nonetheless, it warned at the same time that "fiscal imbalances have become unsustainable" due to limited inflows of foreign financing.

Mega trends

Population	2017	Total: age 0-14: 41.43% of total; age 15+: 58.56% of total; age 65+: 2.95% of total
Population growth rate	2015	2.34%
Life expectancy at birth	2015	Total: 60.28 years; female: 62.05 years; male: 58.59 years
HIV/AIDS	2016	Total number of people living with HIV: 1.3 million; total adult prevalence: 13.5%; HIV AIDS orphans (age 0-17): 0.45 million
Adult literacy rate	2015	Total population: 59.57%; female: 49.68%; male: 69.19%
Urbanisation	2016	Urban population: 32.28% of total; annual urban population growth: 2.03%; rural population: 67.72% of total
Population below $1.90/day poverty line	2011	21.41%
Unemployment rate	2017	Total: 5%; female: 4.5%; male: 5.5%; youth (15 - 24): 10.3%
Employment	2017	Agriculture: 65.8% of total; industry: 9.1% of total; services: n/a% of total
Labour participation rate	2017	Total (ages 15+): 82.62% of total population
Business languages	n/a	English, Shona, Ndebele
Telephone & internet users	2013; 2016	Fixed telephone subscriptions: 0.31 million (2016); wired internet subscriptions: 0.14 million (2013); cell phone subscriptions: 12.88 million (2016)
Quality of infrastructure (1 = underdeveloped, 7 = developed)	2017	2.92

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa

Headline inflation increased from 0.1% y-o-y in August 2017 to 0.8% y-o-y in September, though Zimbabweans claim a wide disparity between data reported by the Zimbabwe National Statistics Agency (Zimstat) and on-the-ground developments. While the disparity between inflation measurements and perceptions has been a concern for some time, the problem has been amplified by the depreciation in value of bond notes,

Business Environment

Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
154th	out of 188 countries	175th	out of 180 countries	124th	out of 137 countries	159th	out of 190 countries	154th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The Zimbabwe Agenda for Socio-Economic Transformation (Zim Asset) 2013-2018 is the country's plan to achieve sustainable development and social equity through indigenisation, empowerment and employment creation. The plan is currently in its second phase (2016-2018). The agenda is built around four strategic clusters, namely: 1) food security and nutrition, 2) social services and poverty eradication, 3) infrastructure and utilities, and 4) value addition and beneficiation. The strategies envisioned under Zim Assets include: 1) investing in sustainable food security solutions; 2) increasing economic opportunities for women and the youth; 3) expanding the accessibility and utilisation of ICT; 4) building and rehabilitating infrastructure and utilities; 5) establishing SEZs; and 6) recapitalising and capacitating development finance institutions, amongst others. Although the country has not made much progress in the implementation of the current strategy, a follow-up Zim Asset II is currently under development for the period 2019-2023. It is however important to note that these policies are likely to be revised with the new government that is being formed by Mr E D Mnangagwa.

Sovereign Risk Ratings

S&P Global Ratings	Fitch Ratings	Moody's Investors Service
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Source: Trading Economics

Zimbabwe does not currently have a rating from any of the major ratings agencies.

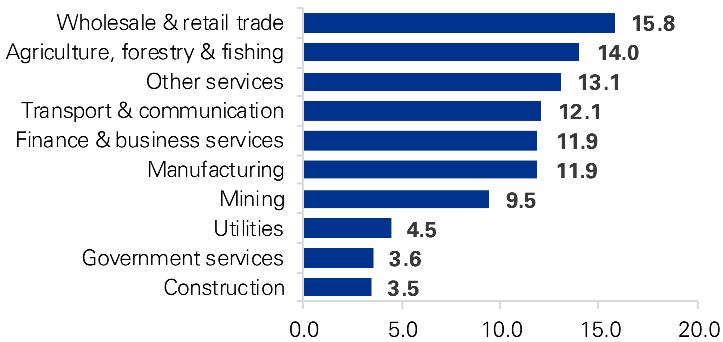
Finance & Banking

Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Reserve Bank of Zimbabwe (RBZ)	15	14.38	6.01	81.01
Stock market	**Listed companies**	**Market capitalisation***	**Largest sectors**	**Weekly trading value***
Zimbabwe Stock Exchange (ZSE)	60	$11.7 billion	General industrials	$25.6 million
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Very limited	91 days to 5 years	No	N/A

Sources: World Bank, African Alliance, Analyse Africa, KPMG research
**Week ending 27 October 2017*

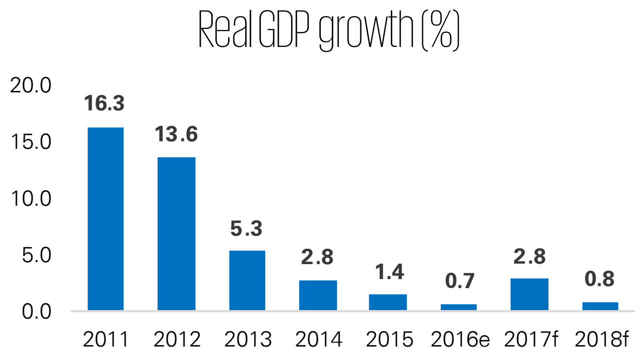
Macroeconomic overview

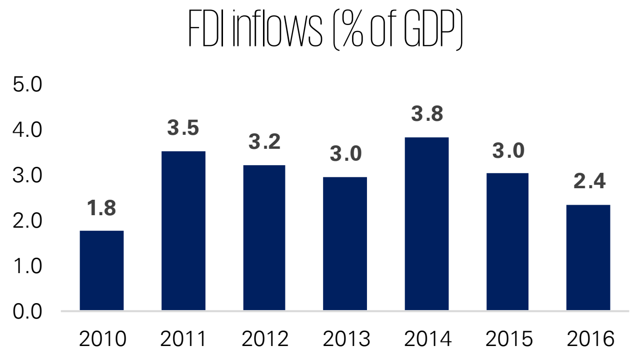
Economic structure (% of GDP), 2016



Source: African Economic Outlook (AEO)

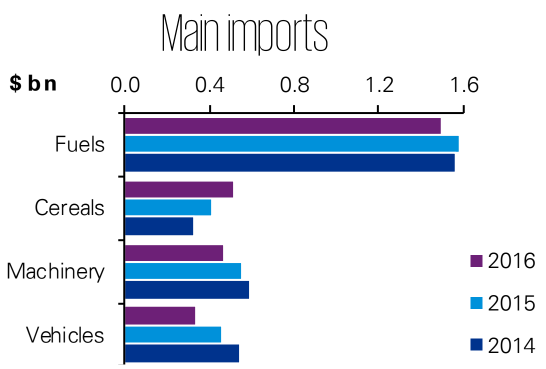
Economic growth – The Zimbabwean economy mounted a fragile recovery in 2017 on the back of improved rainfall boosting crop production. In fact, earlier this year, the IMF expected growth of only 2%, but revised this figure to 2.8% in October 2017. The country's cereal production is estimated to have increased threefold in the 2016/17 farming season and is expected to grow further during the 2017/18 farming season. Zimbabwe recently witnessed a change in its leadership after the resignation (following influence from the military) of long serving President Robert Mugabe in November 2017 after 37 years in power. The change, which saw the swearing in of Emmerson Mnangangwa as the country's new president, with this development expected to usher in new economic development and improve investor's sentiments towards the country. The change in the country's leadership before elections (which are due to be held in the third quarter of 2018) has brought new hope in the country for an economic turnaround.

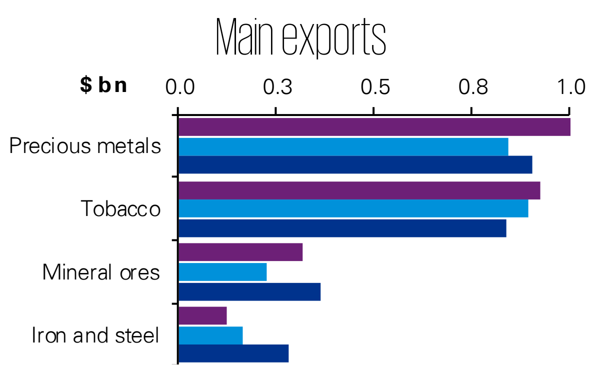




Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – BMI currently ranks Zimbabwe 43rd out of 48 states in Sub-Saharan Africa and 191st out of 201 countries worldwide for trade and investment attractiveness. Ministry of Macro-Economic Planning and Investment Promotion Permanent Secretary Judith Kateera commented in October 2017 that the creation of SEZs are expected to attract foreign direct investment (FDI) and translate into export-led economic growth in the landlocked country. The government adopted the SEZ Act in October 2016 and rolled out consultative meetings and sensitisation workshops for stakeholders in the latter part of 2017. The SEZs will offer investors tax and administrative benefits and incentives. Additionally, foreign investors will not have to comply with the indigenisation laws within the SEZs, which is bound to promote FDI in Zimbabwe. The government has been implementing a rapid response initiative to oversee the implementation of the country's Zim-Asset and improve the conditions of doing business in Zimbabwe. This initiative has been prioritised and is being spearheaded together with the president's office.

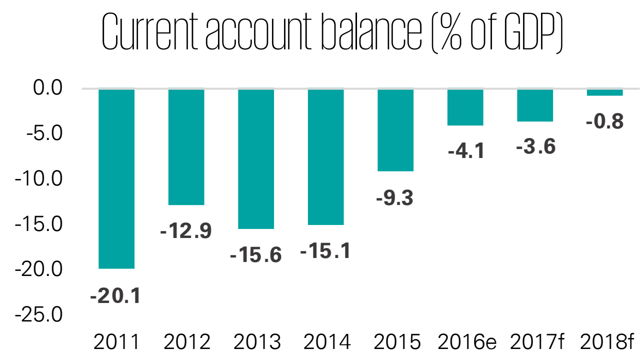


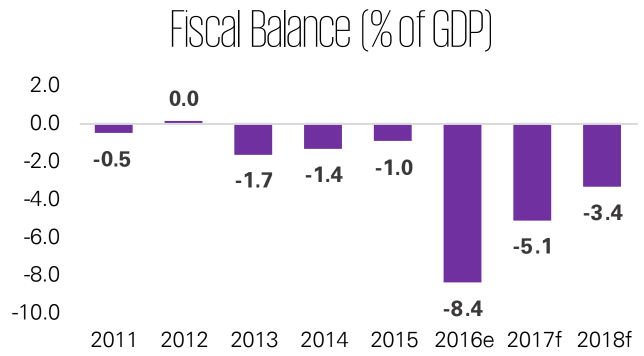


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Fuels	24.6%	26.4%	28.8%	Precious metals	29.5%	31.3%	36.0%
Cereals	5.2%	6.8%	10.0%	Tobacco	27.4%	33.1%	32.7%
Machinery	9.3%	9.3%	9.0%	Mineral ores	11.9%	8.4%	11.3%
Vehicles	8.5%	7.7%	6.5%	Iron and steel	9.2%	6.1%	4.3%

Source: Trade Map

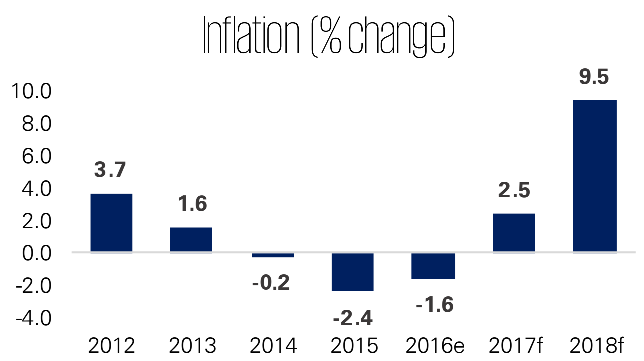
External trade – Zimbabwe's current account shortfall declined (as percentage of GDP) during 2015-2016 as the country's volume of exports increased by a cumulative 22.2% while the volume of imports increased by a cumulative 3.2%. This was as a result of the government issuing Statutory Instrument 64 which restricted imports of certain materials which are locally available in the country. More recently, the Tobacco Industry and Marketing Board (TIMB) measured the country's tobacco crop at 185.6 million kilograms during 2017, sold at an average price of $2.97/kg. Premier Tobacco Auction Floors expected tobacco exports to increase in value from $933 million in 2016 to $980 million in 2017. The improved harvest supported a smaller current account deficit (as percentage of GDP) during the year, and contributed to a rise in export revenues during 2017 – the first increase since 2011. The outlook for 2018 is for a further narrowing of the current account deficit to 0.8% of GDP: this will be the smallest shortfall since 2003. The IMF does not expect Zimbabwe to see a current account surplus over the next five years. BMI projected import cover - the number of months of imports covered by a country's foreign reserves - to equal just 0.4 months in 2018, compared to a global benchmark of at least three months.

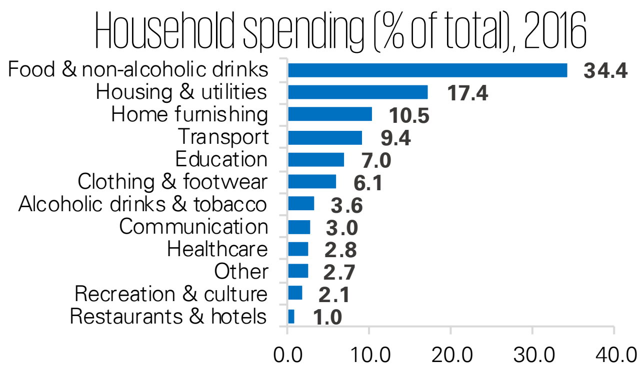




Source: IMF

Fiscal policy – The IMF predicted Zimbabwe's fiscal position to recover modestly from 2016 towards 2018. This is based on expectations of a decline in staff costs during 2018: the IMF indicated in a statement during July 2017 that efforts to freeze government salaries and public sector hiring were underway in Harare. Nonetheless, the multilateral organisation warned at the same time that "fiscal imbalances have become unsustainable" due to limited inflows of foreign financing. As a result, the government has restarted the issuing of Treasury Bills to commercial banks in order to finance its funding shortfall. Banks are struggling to convert these notes into cash and fear a payment default by the state. As a result, while state finances receive a boost from the issuance of debt instruments, the banking system and economy as a whole is starved of cash. From a public debt perspective, the government has settled its outstanding debt payments to the IMF, but has yet to reach an agreement with the World Bank and other multilateral institutions on the settling of arrears. Reserve Bank of Zimbabwe (RBZ) Deputy Governor, Jesimen Chipika, said in October 2017 that the central bank decided to delay the settlement of these debts despite the earlier announcement of secured funding to clear a combined $2 billion owed to the World Bank and African Development Bank (AfDB). He indicated that the benefits to be gained from this repayment will be limited at present as the country is still in the process of meeting other non-financial conditions set out by creditors. These include reforms to the local business and investment environment.





Source: IMF, BMI, country statistics agencies

Monetary policy – Official data indicates that Zimbabwe moved from a period of disinflation in 2015-2016 to price growth during 2017. Headline inflation increased from 0.1% y-o-y in August 2017 to 0.8% y-o-y in September, though Zimbabweans claim a wide disparity between data reported by Zimstat and on-the-ground developments. From a cost of living perspective, the average monthly salary in Zimbabwe is 80% lower than in Johannesburg, South Africa, while the cost of groceries are almost 25% higher in US dollar terms. While the disparity between inflation measurements and perceptions has been a concern for some time, the problem has been amplified by the depreciation in value of bond notes against the US dollar. While the quasi currency - created by the central bank to curb foreign currency shortages - is officially pegged on parity to the US dollar, local media reported in November 2017 that the country's unofficial currency was trading at a discount of up to 50% against the greenback in informal markets. Zimbabweans have been averse to using bond notes due to the fear that the pseudo currency will again cause hyperinflation less than a decade after skyrocketing prices led to the demise of the Zimbabwean dollar. This has also resulted in a dearth of cash in the economy as consumers and businesses hoard any hard currency that they can get hold of. As a result of these dynamics, bond notes have lost a significant portion of their value, translating into Zimbabweans needing to spend a lot more than Zimstat data would suggest. The government banned the import of fruits and vegetables during October 2017 in order to reduce the outflow of foreign currency from the country, while poultry imports from key supplier South Africa is also currently banned due to an avian flu outbreak. The ban on these basic food commodities is part of the reason why the IMF expects a significant rise in average headline inflation – as measured by Zimstat - during 2018 to 9.5%.

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