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# Economic Overview & Outlook Review

Zimnat Conference

June 2018

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# Presentation Outline

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Global & Regional  
Update

Domestic Economic  
Update

- Economic Performance Review
- Economic Outlook

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## Global & Regional Update

## Domestic Economic Update

- Economic Performance Review
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Global GDP growth should pick up modestly but remains below historical norms & subject to downside risks in respect of Trade war

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Global growth expected to pick-up modestly from 3.7% in 2017 to 3.9% in 2018

- Global growth remain below historical norms
- Growth is broad based; recovery in commodity producers helps the modest global upturn

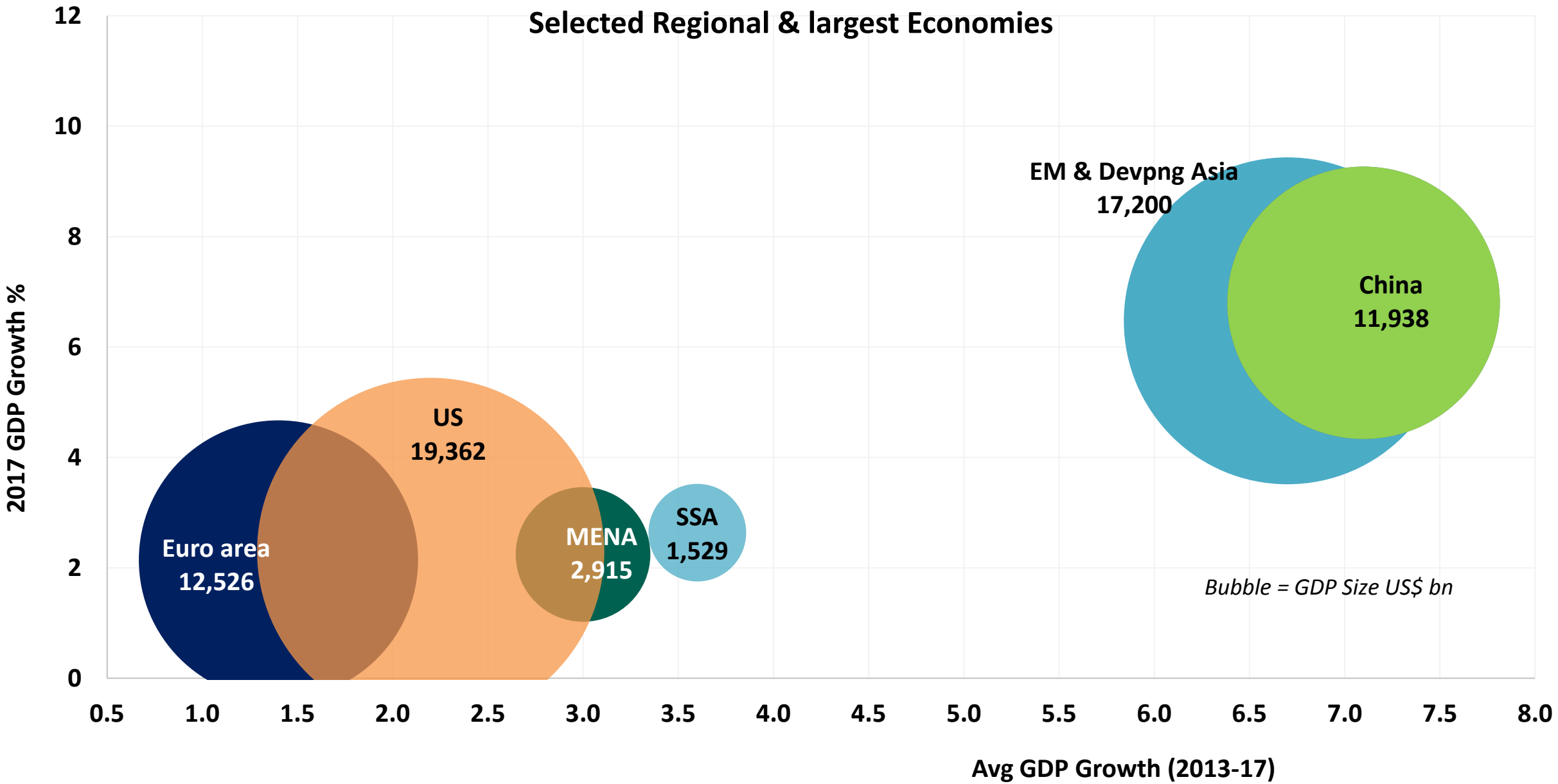
Sub-Saharan Africa (SSA) is also anticipated to pick up from 2.7% in 2017 to 3.3% in 2018

- SSA GDP size was \$1,529 bn in 2017
- Growth hugely influenced by SA & Nigeria which account for close to 50% of SSA GDP size

Trade tensions remain elevated

- Trade policy risk has now clearly overtaken other financial and economic risks
- Possible escalation in tit-for-tat tariffs or quotas
- Biggest threat to the global economy's current growth momentum

SSA is very small compared to other regional economies. SSA largely export unprocessed products and does not influence international prices



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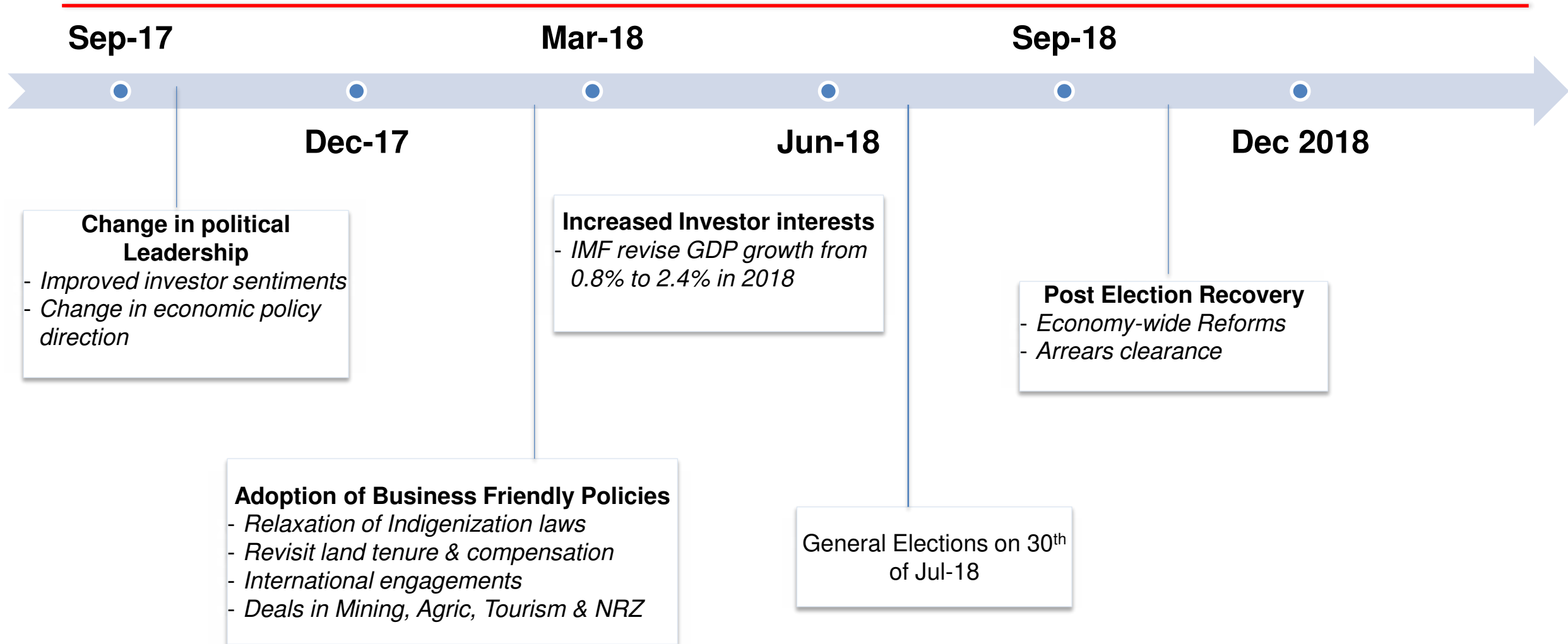
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Global & Regional  
Update

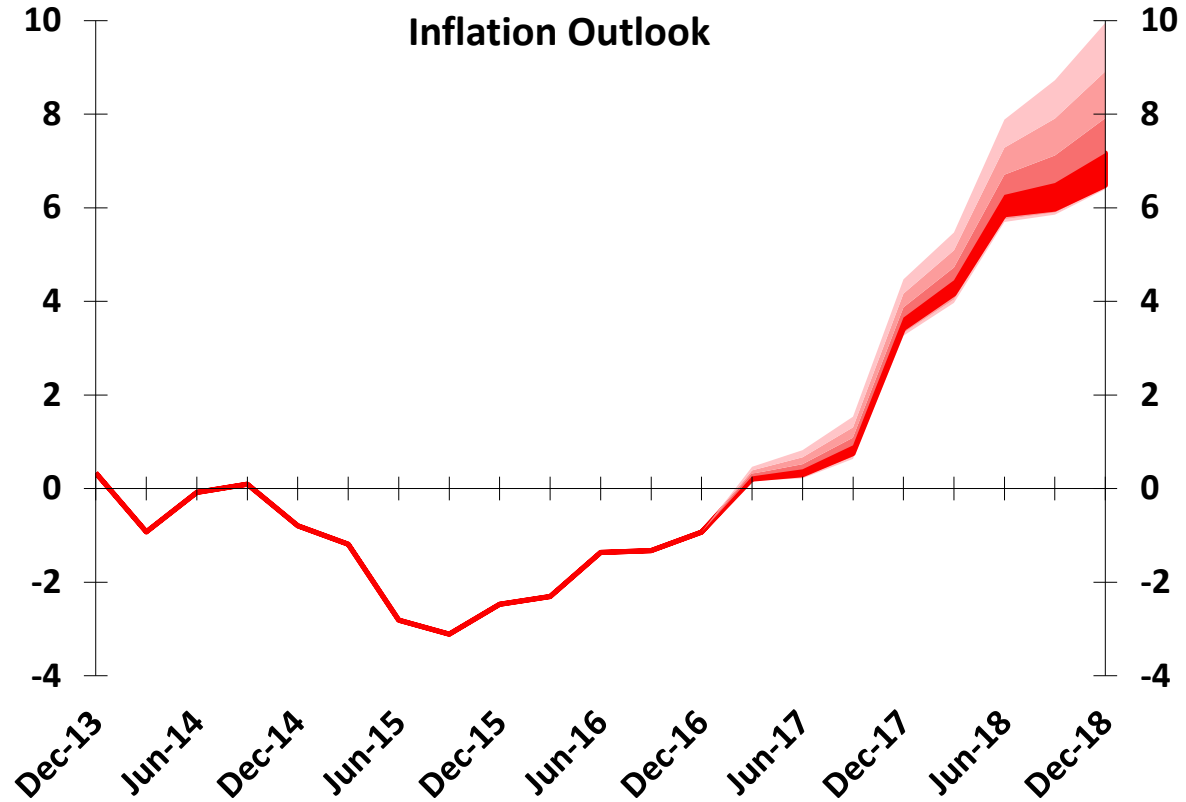
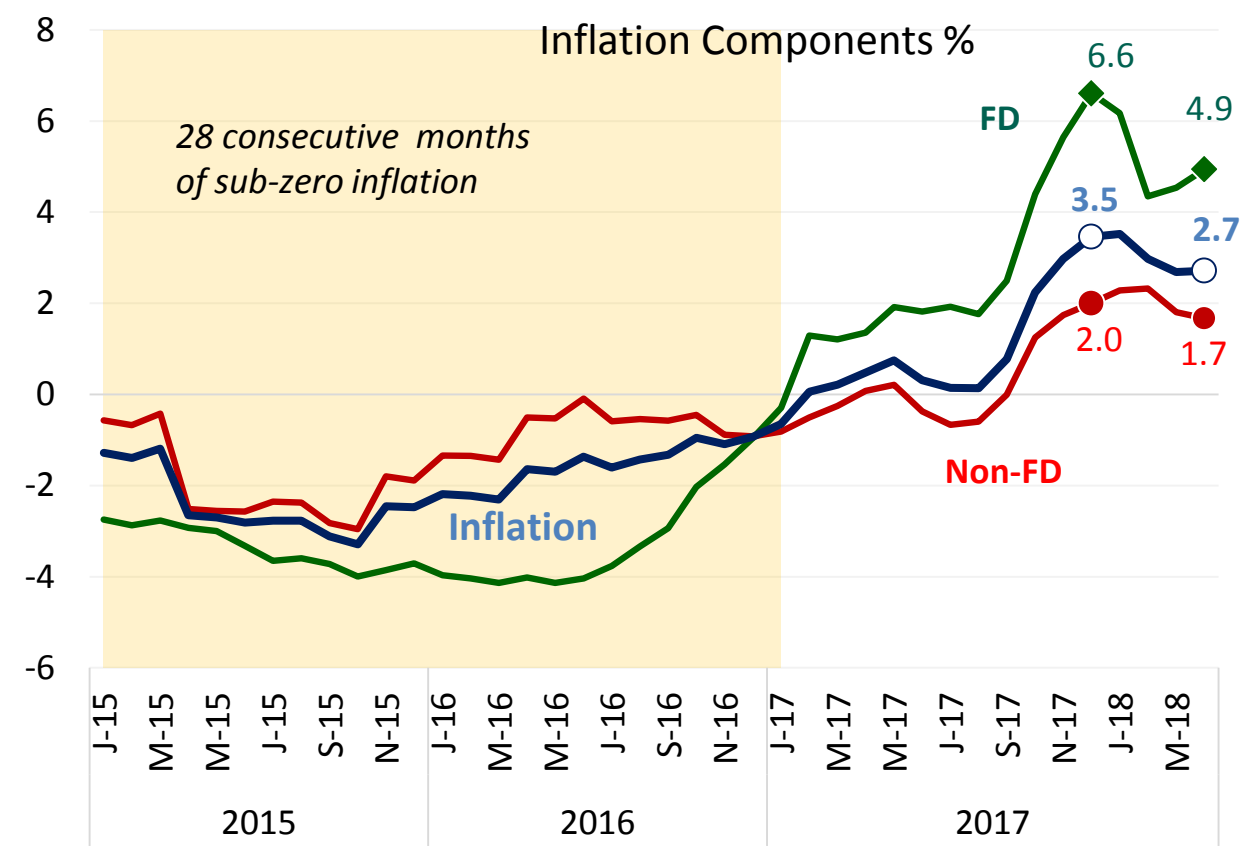
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# Timeline of Recent Key Developments



There is a growing mismatch btwn official inflation and “**real feel inflation**” where prices of some goods are now as high as 4-times regional parity prices. Disposable incomes have been eroded.



Rising Inflation has implications on wage pressures and interest rates.

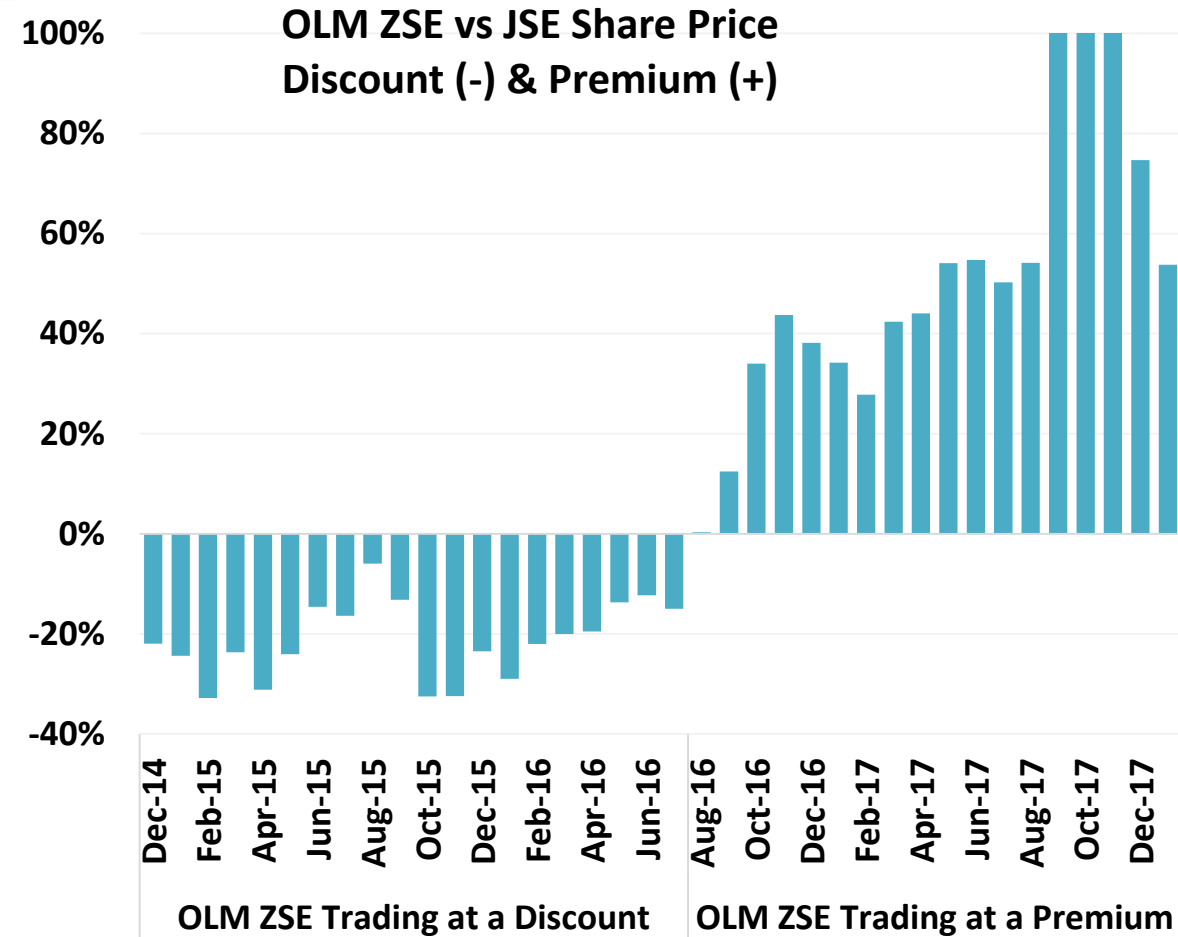
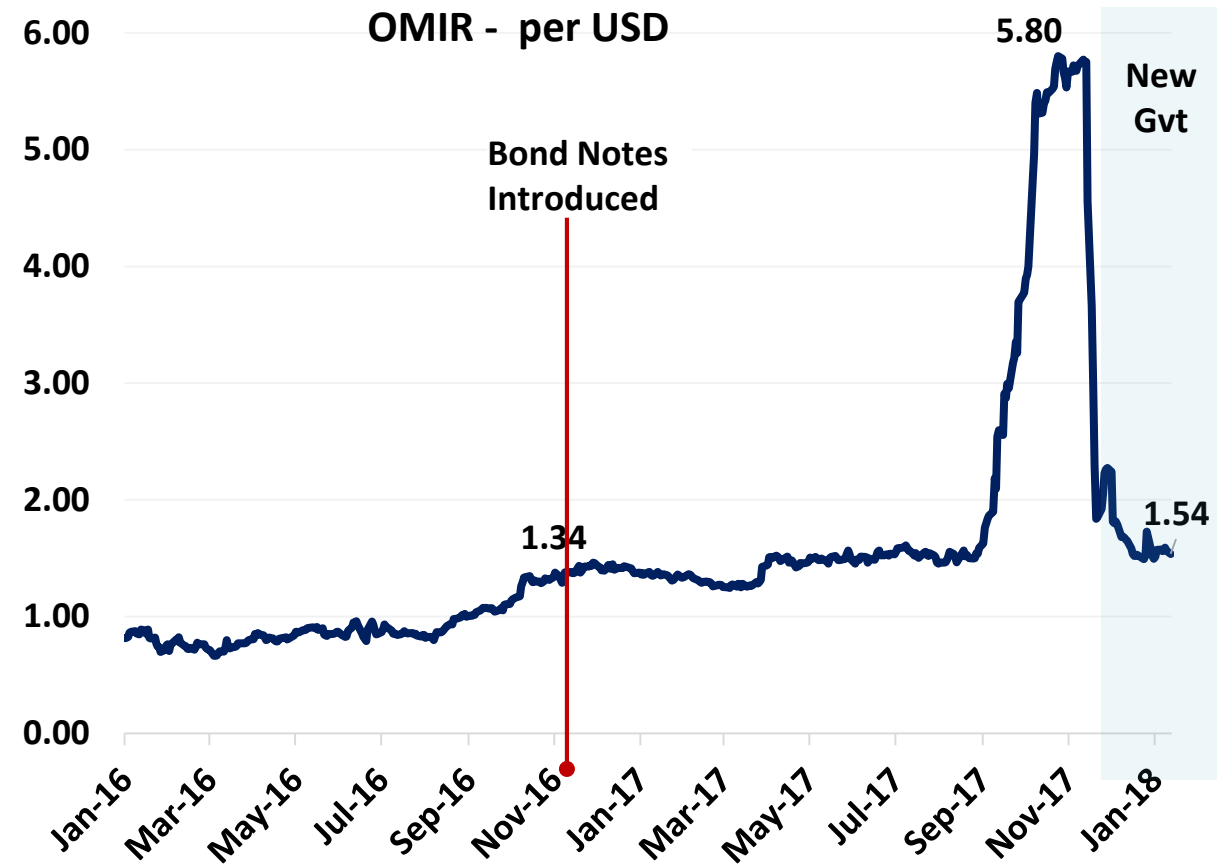
Rising international oil prices will likely feed into domestic fuel prices, distribution & production costs and eventually inflation

Unreasonably high goods prices opens up opportunities for more imports

- Consumers look for substitutes if prices are unreasonably high



A fall in US\$ premium in Dec & Jan due to low FX demand during annual Company shut-down & influx of Diaspora inflows from returning Zimbabweans. **Tobacco season to impact on direction of US\$ premium.**



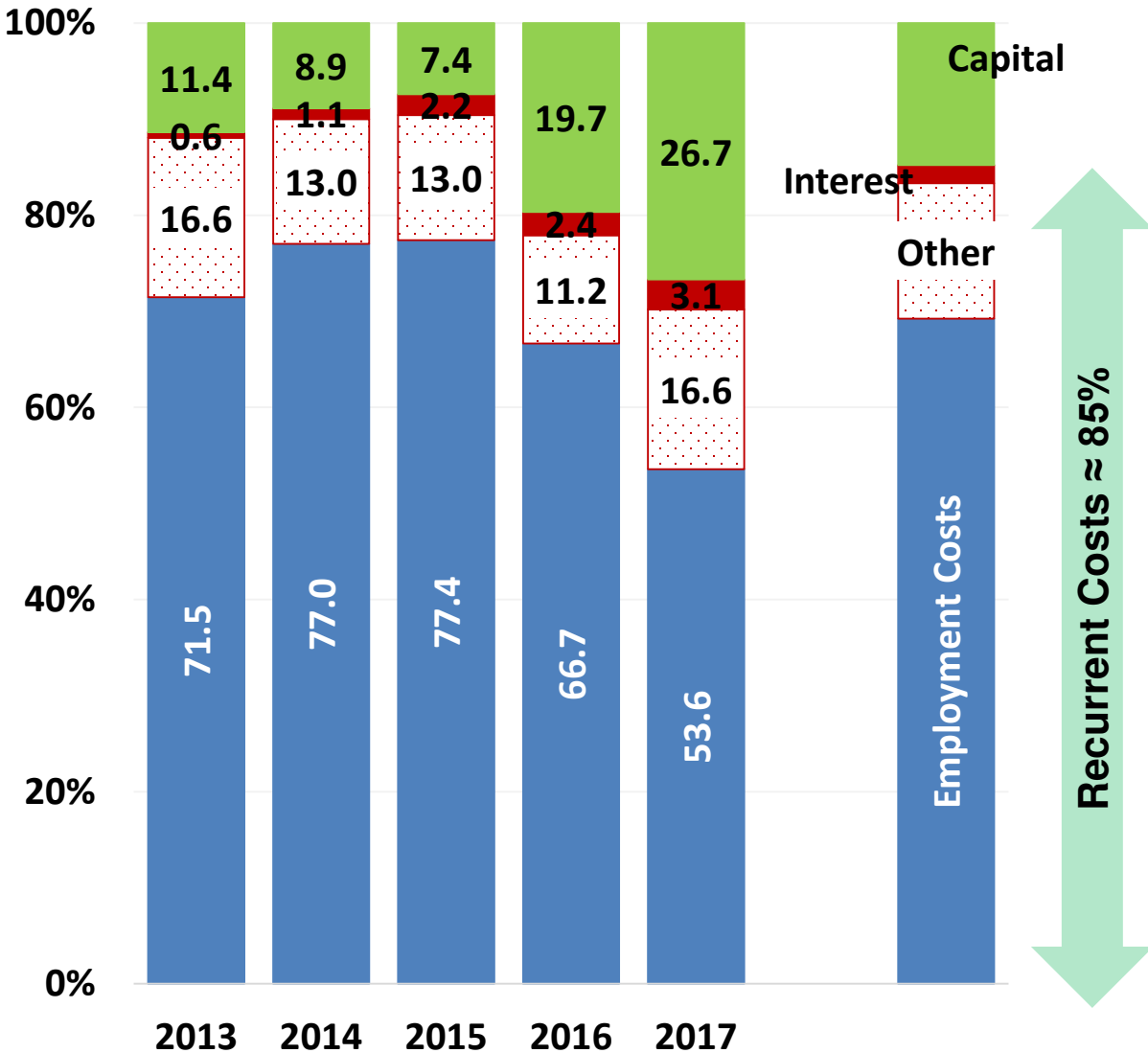
Overvaluation of Dually Listed shares locally in dollar terms

Old Mutal premium higher than observed premiums in the market.

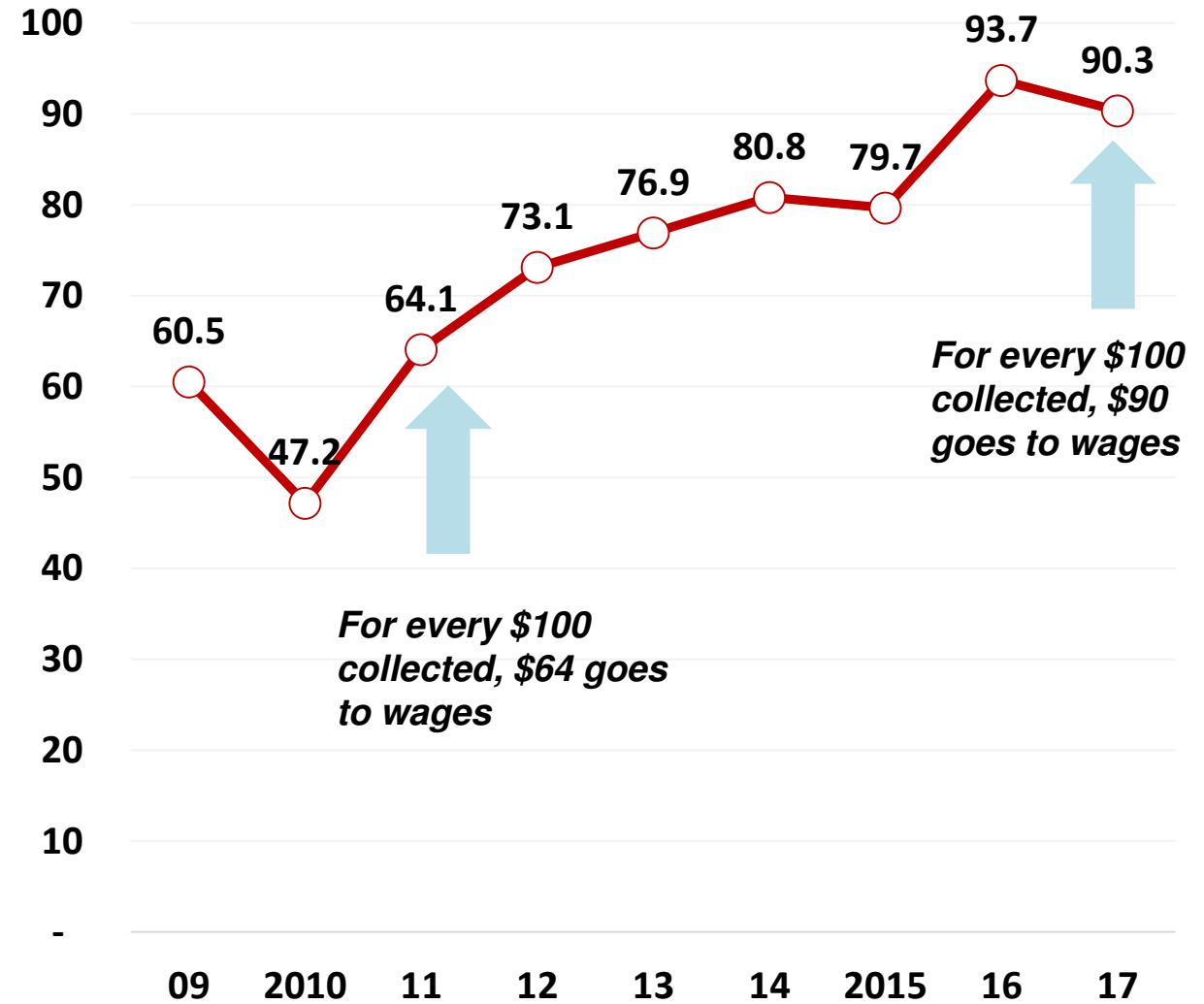
Collapse of Old Mutual Implied Rate (OMIR) in Nov-17 reflect positive sentiments related to New Gvt

No quick fix to the structure of Gvt expenditures. Ideally, the share of Gvt employment to total employment should be low. This would reflect a significantly large pvt sector compared to Gvt.

Structure of Gvt Expenditure %

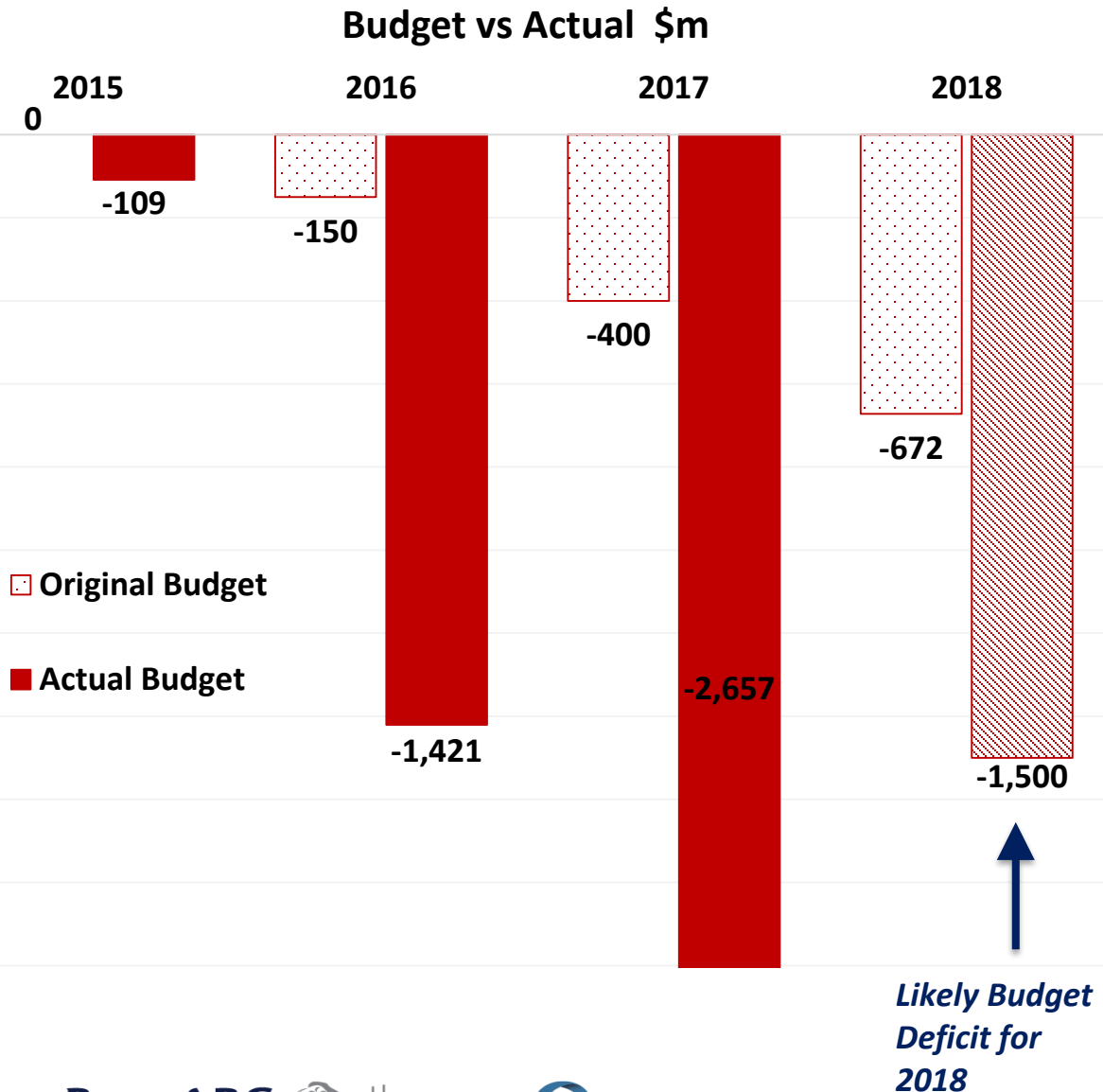


Employment Cost (% of Revenue)



Concern over wide disparity between original Budget and actual outturn. In 2018, possibility of unbudgeted costs related to elections and low GDP growth may lead to higher fiscal deficit

## Risks



### Fiscal pressures to remain pronounced in 2018

- Election related expenditures
- A hike in civil servants salaries

### Gvt to remain reliant on domestic sources to finance bulk of budget shortfall

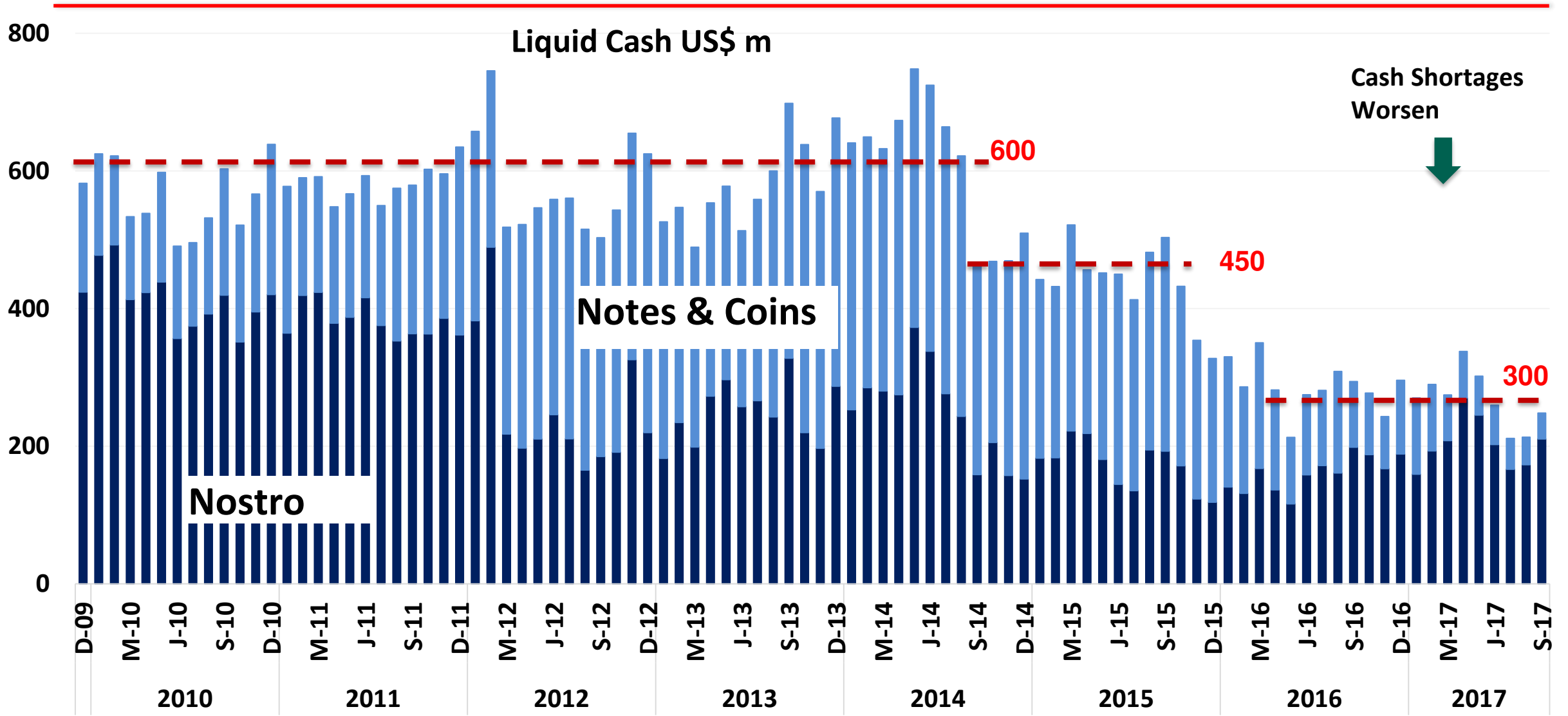
- International donors and concessional lenders take time to warm up to re-engagement efforts

### Budget deficit projected around \$1.5bn – well above budget target of \$672m

- Assumption of debt from PEs will add pressure as this will entail higher interest payments to service the debts

Nostro balances and cash holdings have declined significantly resulting in cash shortages.

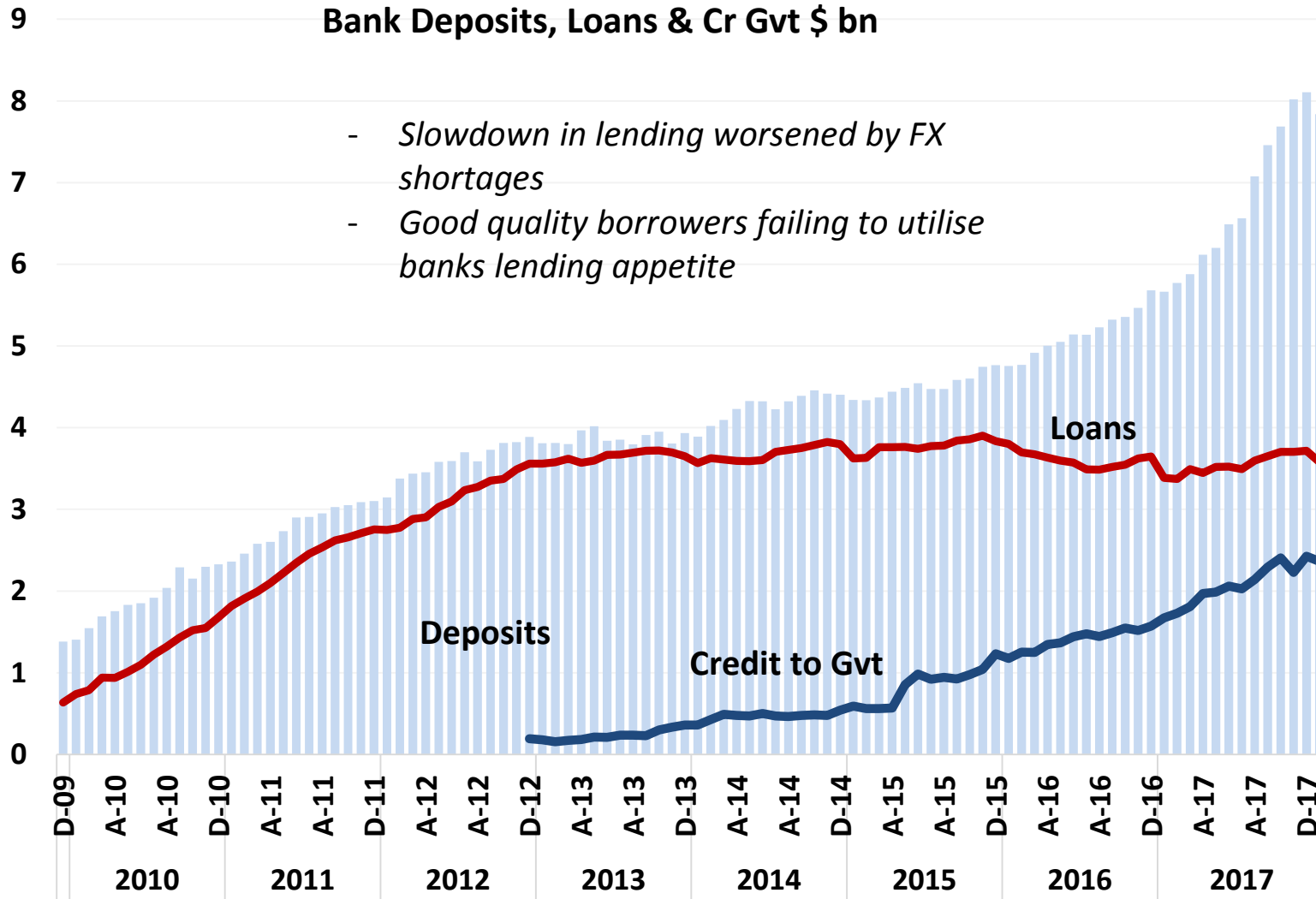
Liquid cash = Nostro plus foreign notes & coins.



# Evidence of crowding out of pvt sector as funding is directed to Gvt at the expense of business.

## Bank Deposits, Loans & Cr Gvt \$ bn

- Slowdown in lending worsened by FX shortages
- Good quality borrowers failing to utilise banks lending appetite



Rapid growth in Deposits of 43% yoy to \$8,106m in 2017 driven by:

- Fiscal deficit financing - RBZ Overdraft
- Withdrawal limits – inability to use trapped deposits due to FX shortages
- Export earnings

Loans to Pvt grew by 1.9% yoy to \$3,718m

- Productive lending ≈ 75% of total loans
- Mortgages 13.2% share
- Consumptive loans 18.6% share

Rapid Gvt Credit growth

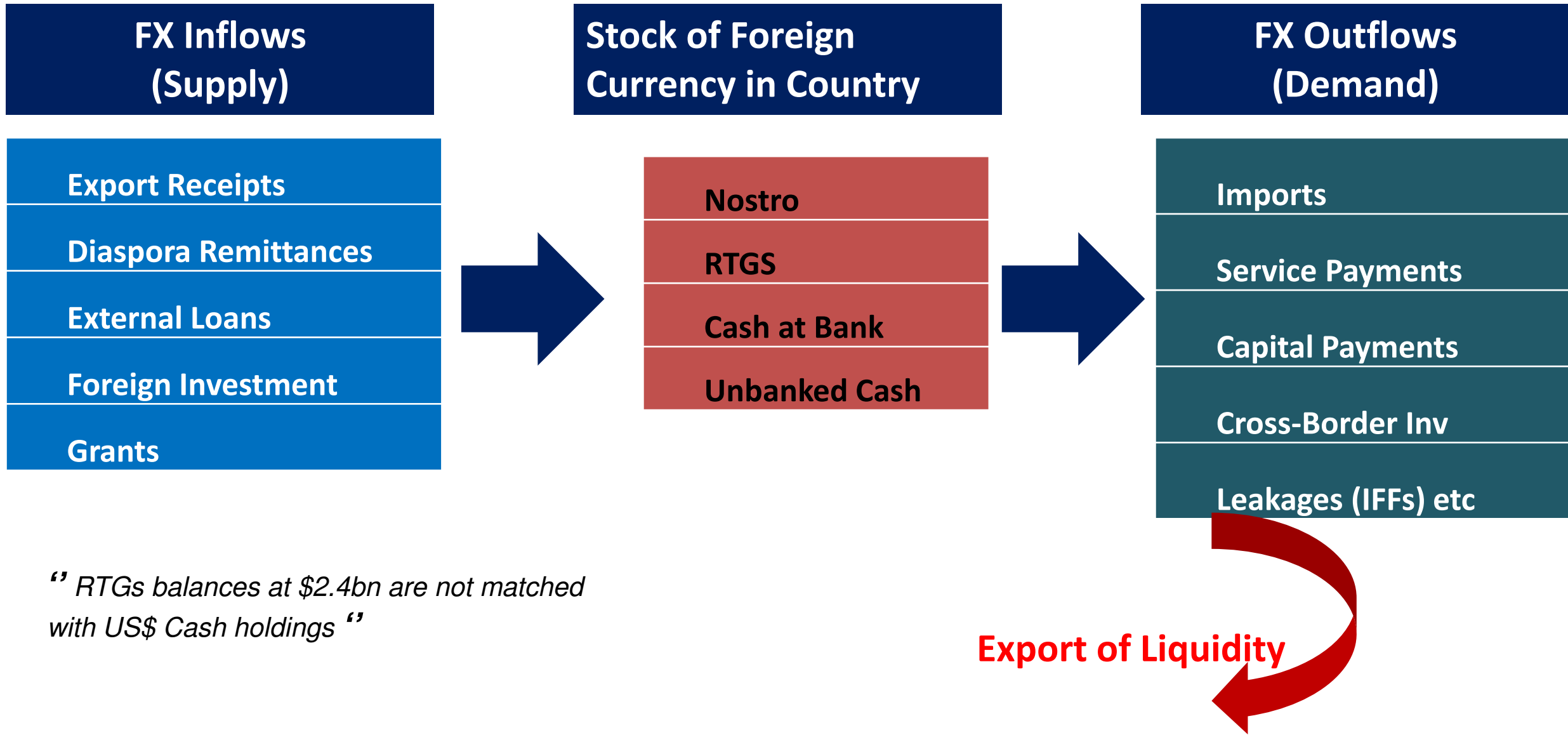
- High fiscal deficits being financed by RBZ overdraft and banks

Balanced Fiscal deficit (FD), High GDP Growth

Emerging FD. Exports-  
imports mismatches

Cash shortages, rising  
FD, FX parallel mkt

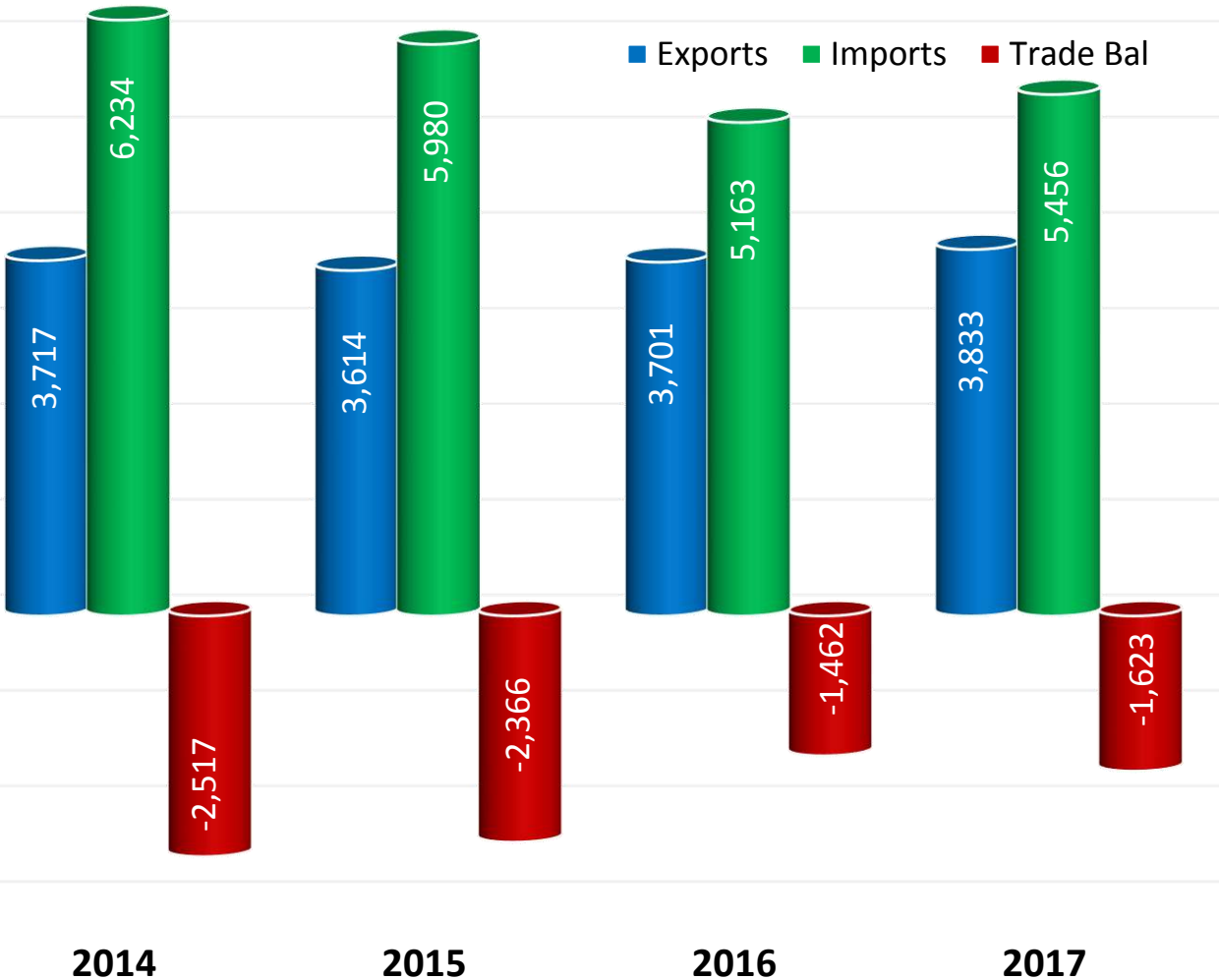
FX outflows have for a number of years outstripped inflows leading to net outflow of FX – thus leading to cash shortages



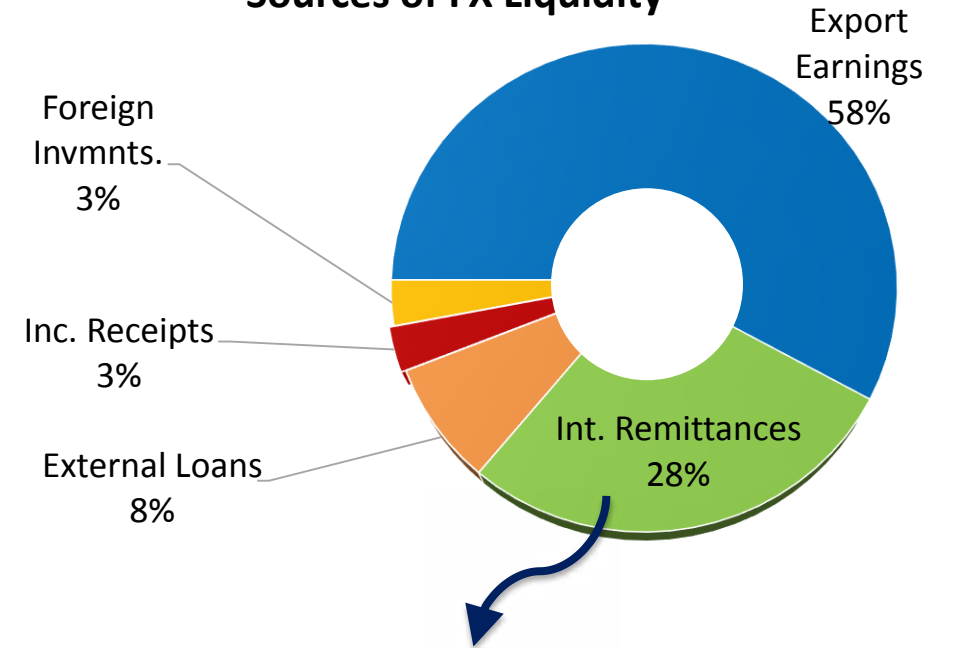
*“ RTGs balances at \$2.4bn are not matched with US\$ Cash holdings “*

Unsustainable trade deficits over the years have contributed to liquidity challenges. Despite FX shortages, imports appear inelastic. Higher prices of local goods also tend to encourage consumption of imports.

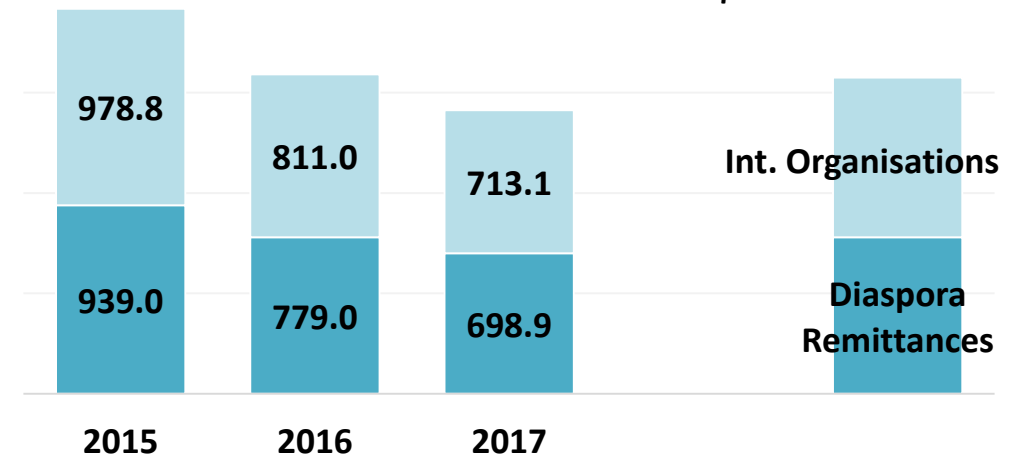
External Trade (2014-17) US\$ m



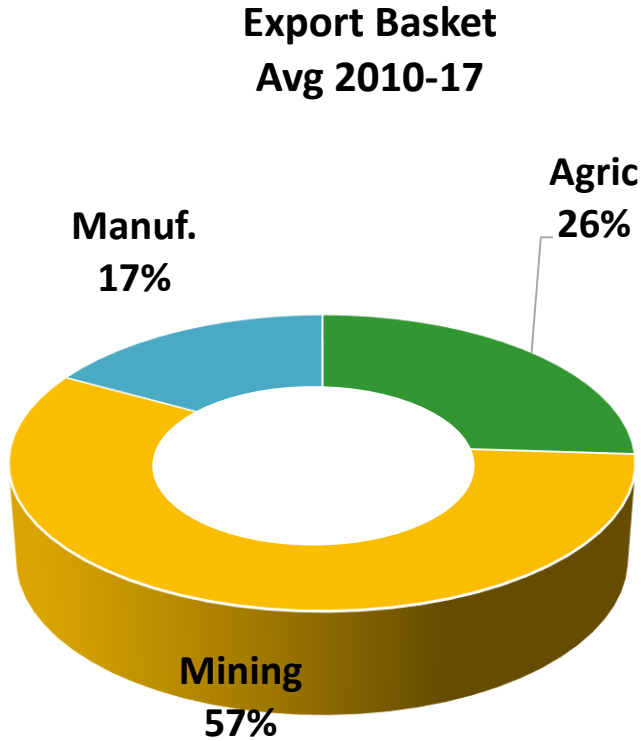
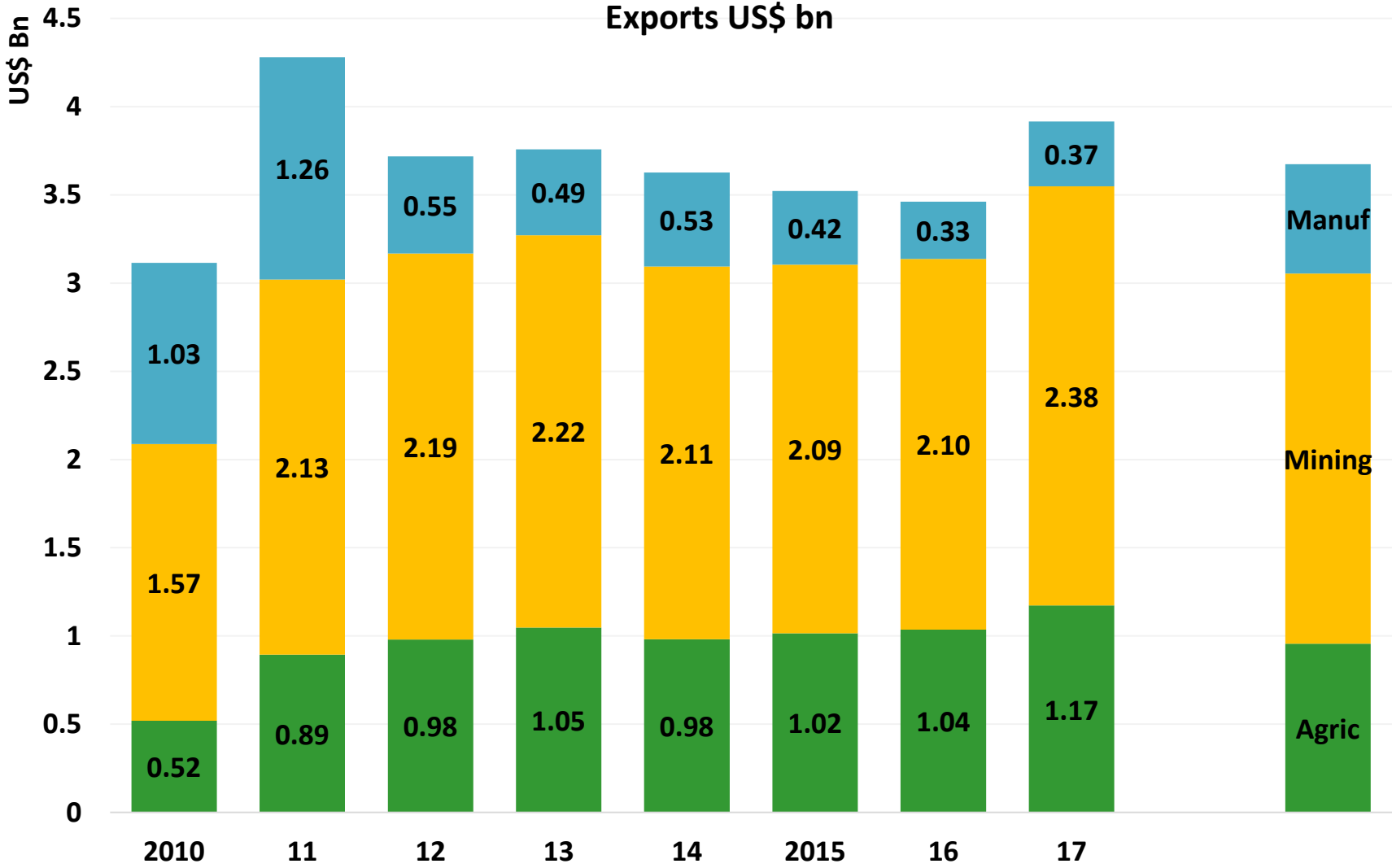
Sources of FX Liquidity



International Remittances US\$m

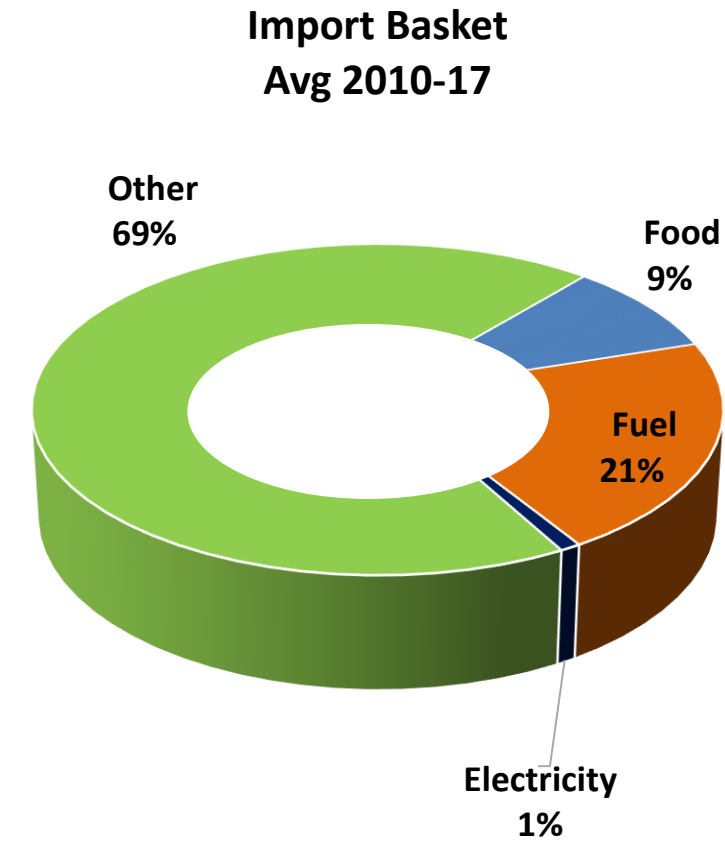
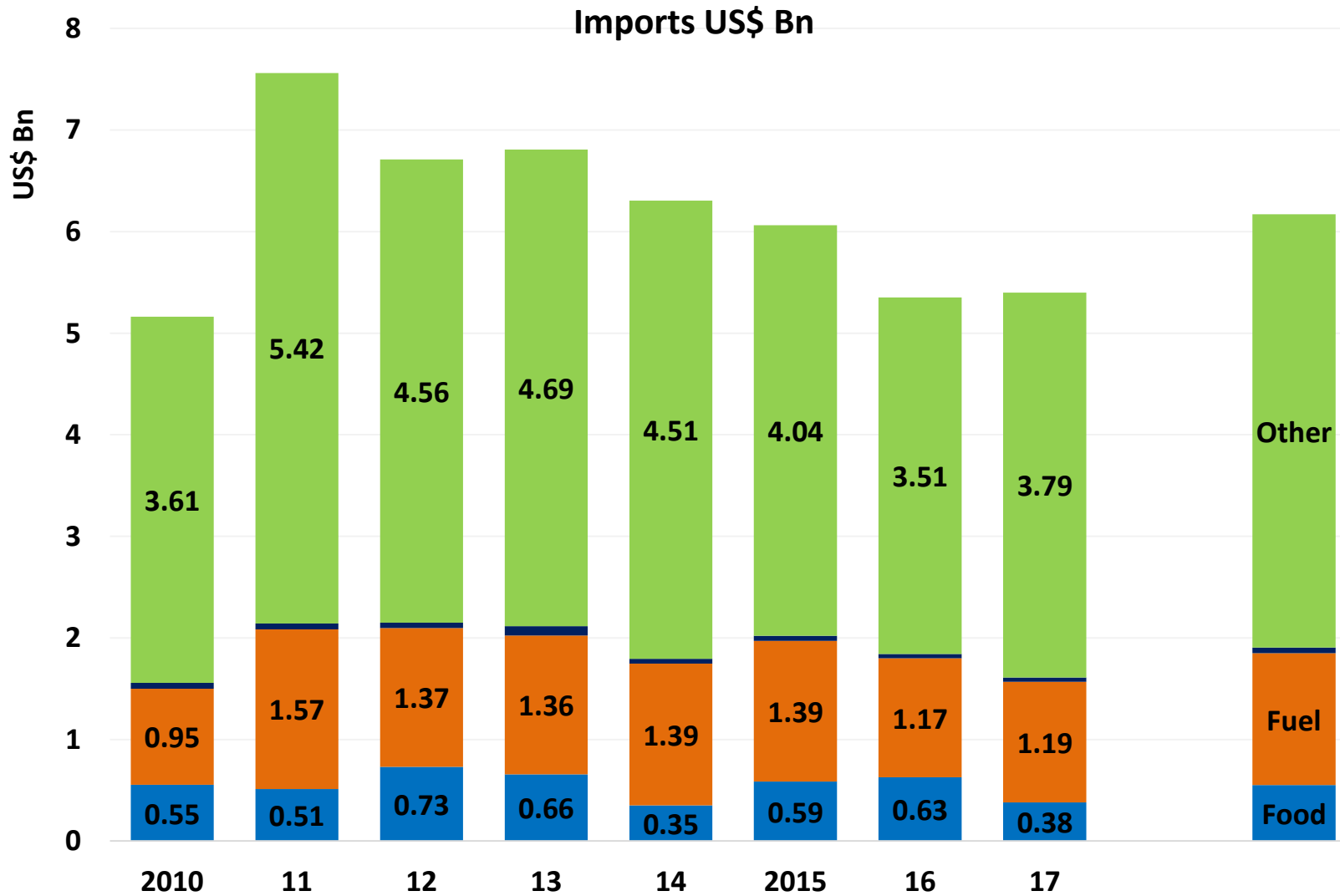


Total Exports peaked at \$4.4bn in 2011 before gradually declining to below \$3.5bn in 2016. Manuf. Exports declined from above \$1bn to below \$400k due to lack of competitiveness.





Imports peaked at \$7.5bn in 2011 before subsequently falling as FX became increasingly scarce.



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## Key Challenges or Risks

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**Rising Inflation**  
*could erode purchasing power*

**FX Shortages**  
*Impact on Companies*

**Slow Build-up in Investor Confidence**

**High Fiscal Deficit**

*Crowding out of Pvt Sector*

**Slow reforms before elections**

**Rising Gvt Debt**

*Driven by Assumption of PEs Debt*

**Weak growth in 2018 due to subdued sectoral growth**

- Weaker performance in agriculture, manufacturing & services

Economic Opportunities are abundant given Gvt thrust to support business friendly climate. Regardless of political outcome, a free and fair elections will position the country for an economic rebound.

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### Improved investor Sentiments

- Greater Political will to address economic challenges
- International reengagement drive
- Investor friend policies – Relaxation of indigenisation Laws

### Business friendly Policies supported by political will

- Agriculture – *land tenure, input supply*
- Mining -
- Tourism

### Infrastructure Development

- Major deals
- Road, rail and dams construction
- Properties Development
- Promote local procurement of raw materials

### Resumption of Critical industries

- **NRZ** – *positive impact on mining & broader industries*
- **ZISCO Steel** – *strong linkages with local steel industries*
- **New Mines** - *Lithium*

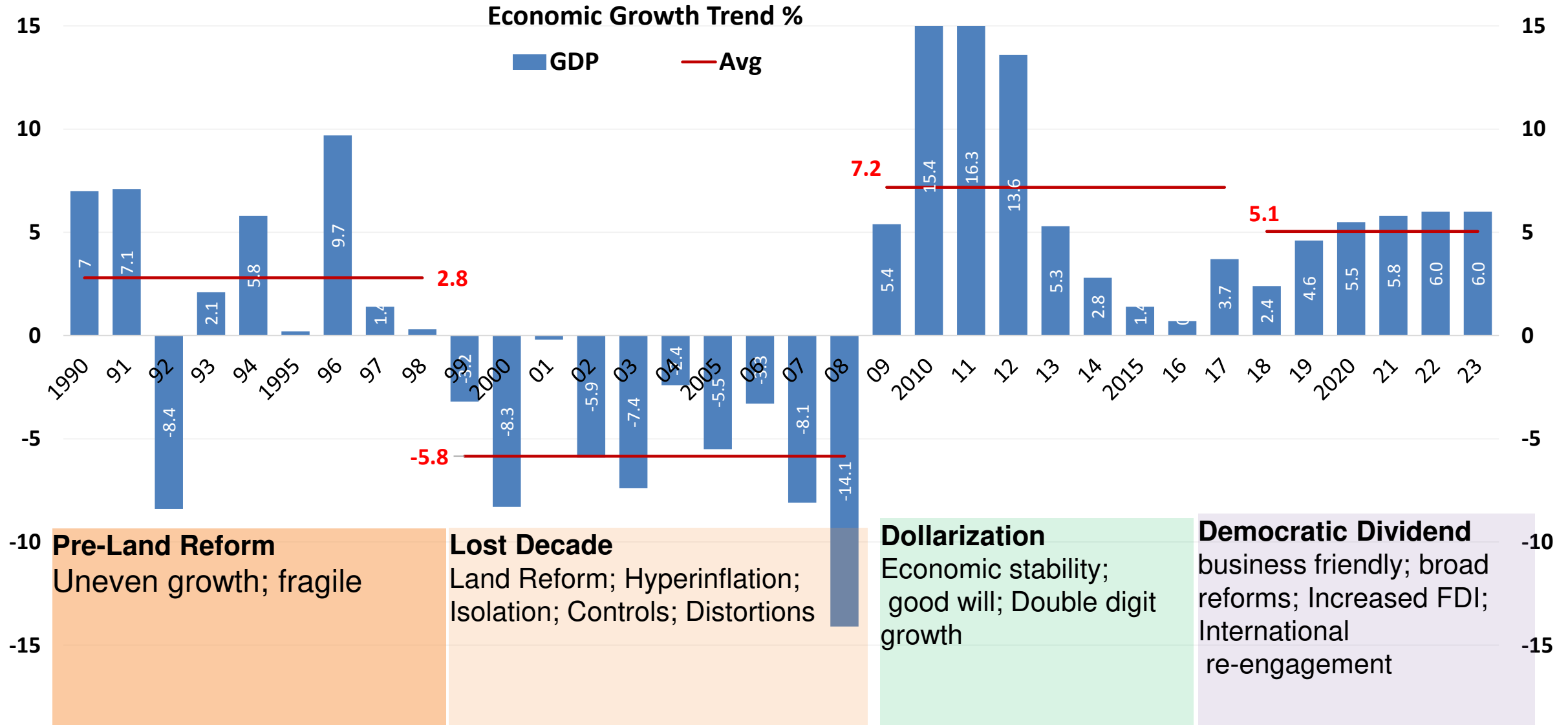
### Recovering global Economy

- Growth supported by recovery in commodity prices
- Strong performance in China, Euro & US
- US Trade Tariffs on steel and aluminium will ignite trade war

### PEs Turn-Around

- Reforms on PEs to turnaround performance
- Some PEs targeted for liquidations, privatisations & mergers

# No quick fix to economic recovery, but prospects for a sustainable economic growth are bright



Some measures to help build positive sentiments, improve the ease of doing business and eventually turnaround the economy are critical

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Rein in fiscal spending to curtail fiscal deficit – impact to be felt from 2019

Minimise delays in accessing FX for raw material imports or Relax some of the surrender requirements

Implement turn around strategies for PEs

- A loss of \$270m in 2016 from 38 of the 93 parastatals. Huge Parastatal debt may be transferred to Gvt – leading to unsustainable domestic debt.
- So PEs to be liquidated, privatised or merged
- Resuscitate NRZ – far reaching downstream benefits – reduces cost of doing business

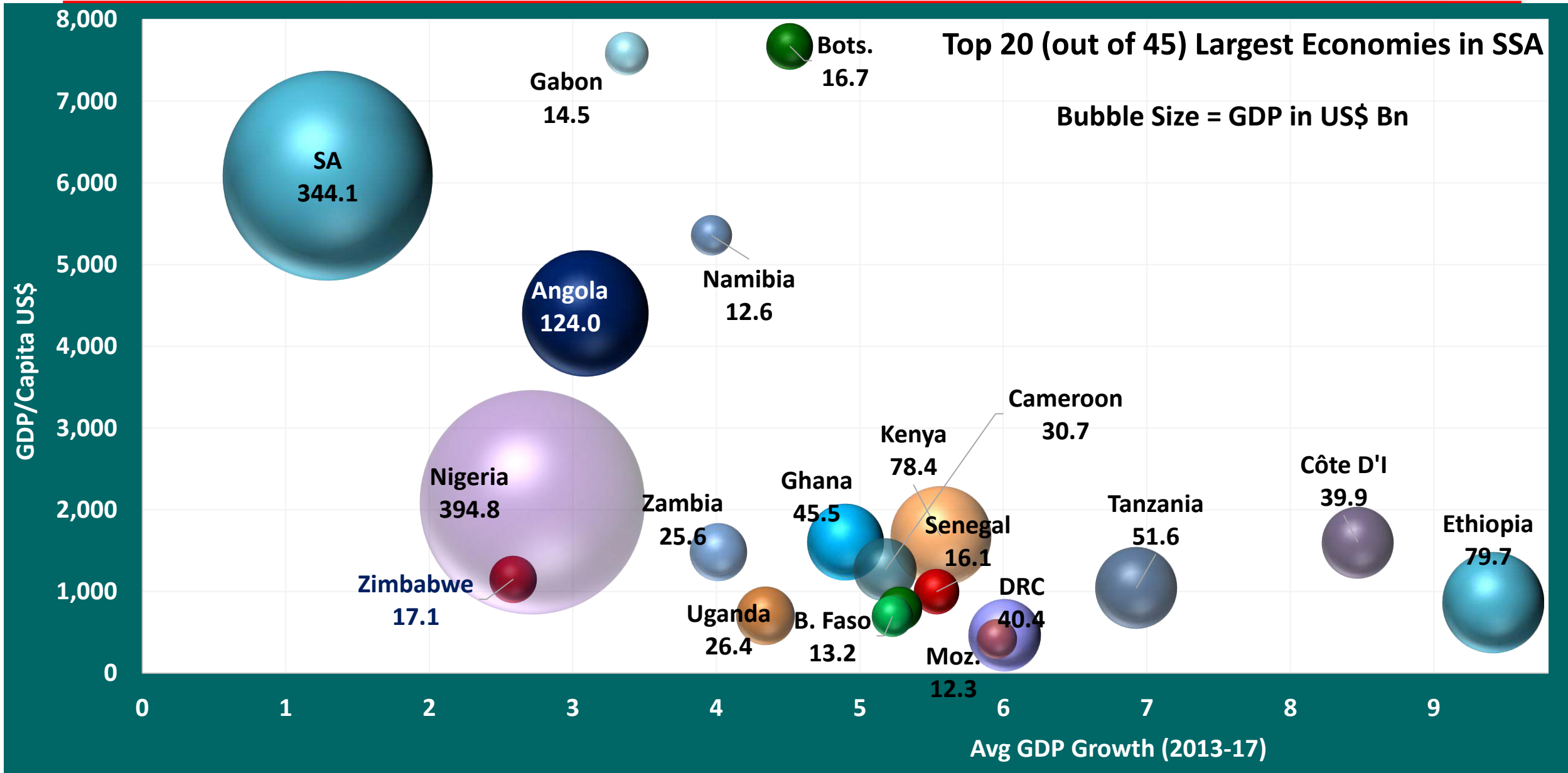
Expedite the proposed amendment of investment laws

- Reducing policy uncertainty - some investors are willing to enjoy first mover advantage

Encourage strategic partnerships in Agriculture to fully utilise idle land

Pursue measures to resolve external debt burden & international engagements

Zim lost out on Africa's recent growth boom. The economy nearly halved in size during "lost decade" 1997 – 2008. In order to catch up, Zim economic growth should be above SSA average.





**THANK YOU**