KPMG

Economic Snapshot H1, 2017

Zimbabwe

Inflation overview – Headline inflation increased from 0.2% year-on-year (y-o-y) y-o-y in March 2017 to 0.4% y-o-y in April. Monetary policy has been beyond the central bank's control since the hyper-inflated Zimbabwean dollar was abandoned. By April 2017, the Reserve Bank of Zimbabwe (RBZ) had issued $121 million worth of bond notes in order to boost the value of hard currency circulating in the economy.

Growth summary – GDP growth was on a declining trend from 2011, falling to 0.5% in 2016. A recovery to 2% growth is projected for 2017 on the back of optimism about a larger tobacco crop. Encouragingly, leaf auctions were around 40% y-o-y higher in value by the middle of April. Economic development over the long-term will be largely dependent on the success of much needed reforms.

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 via indigenisation, empowerment and employment creation. The plan is currently in its second phase (2016-2018) and Vice President Emerson Mnangagwa believes that full implementation of Zim Asset will result on social stability.

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 is not impartial, with judges often being appointed for political reasons.
The politico-economic 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 Zimbabwean trade.	Intellectual property rights infringements go largely unpunished.
High density of bank branches translates to high availability of financial 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.	Entrepreneurs continue to emigrate to due to the lack of opportunities.
Most of Southern Africa is making reasonable progress in the political and economic arenas. Zimbabwe's trade with its neighbours is expected to expand significantly.	Inefficiencies, a dearth of skills, infrastructural deficiencies and the pervasive influence of vested interests mean the business environment will remain challenging.
Urbanisation is likely to increase, which will provide companies with larger markets in which to sell their goods and enlarge the local labour pool.	Further expropriations and arbitrary restrictions on commerce are possible, with the energy, banking, transport, retail and mining sectors all possible targets.

Source: Business Monitor International (BMI)

Mega trends

Population	2017	Total: 15.60 million; female: 8.3 million; male: 8.0 million; age 0-14: 41.4% of total; age 15 +: 58.5% of total; age 65+: 2.95 % of total
Population growth rate	2015	2.31%
Life expectancy at birth	2014	Total: 57.50 years; female: 58.89 years; male: 56.17 years
HIV/AIDS	2015	Total number of people living with HIV: 1.4 million; total adult prevalence: 14.7%; HIV/AIDS orphans (age 0-17): 0.45 million
Adult literacy rate	2015	Total population: 86.87%; female: 85.29%; male: 56.17%
Urbanisation	2015	Urban population: 32.38% of total; annual urban population growth: 1.93%; rural population: 67.62% of total
Population below $1.90 per day poverty line	2011	5.17%
Unemployment rate	2017	Total: 5%; female: 4.5%; male: 5.5%; youth (15 - 24): 10.3%
Employment	2011	Agriculture: 65.8% of total ; industry: 9.1% of total ; services: 25% of total
Labour participation rate	2017	Total (ages 15+): 83.52% of total population
Business languages	n/a	English, Shona, Ndebele
Telephone & Internet users	2013	Fixed telephone subscriptions: 0.33 million; wired internet subscriptions: 0.14 million; cell phone subscriptions: 12.75 million (2015)

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Development Indicators, UNAIDS, International Labour Organisation

Human Development Index (HDI) 2015		Index of Economic Freedom 2016		Global Competitiveness Index (GCI) 2016		Doing Business 2017		Corruption Perceptions Index 2016	
154th	out of 188 countries	175th	out of 179 countries	126th	out of 148 countries	161st	out of 189 countries	154th	out of 177 countries

Source: Transparency International, Doing Business, World Economic Forum, UN Human Development Report, The Heritage Foundation

Sovereign Risk Ratings

S&P Global Ratings	Fitch Ratings	Moody's Investors Service
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Zimbabwe does not currently have a sovereign rating from any of the three major rating agencies.

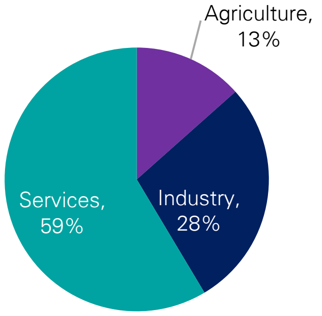
Quality of infrastructure	Economic diversity	Banking sector	Continuity of economic policy	GDP growth	Fiscal / current account balances	Foreign investment	Socio-economic development	Forex reserves
Weak, limited spending	Diverse, although declining	Still functioning although under much pressure	Unpredictable	Downward trend	Twin deficits	Vulnerable to policy shifts	Low	Very limited

Stock market	Listed companies	Liquidity	Market capitalisation	Largest sector	Weekly trading volume
Zimbabwe Stock Exchange (ZSE)	68	Low	$3.6 billion Source: African Alliance	General industrials	$1.2 million Source: African Alliance
Capital market	**Level of development**	**Liquidity**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Very limited	Negligible	91 days to 5 years	No	N/A

Macroeconomic overview

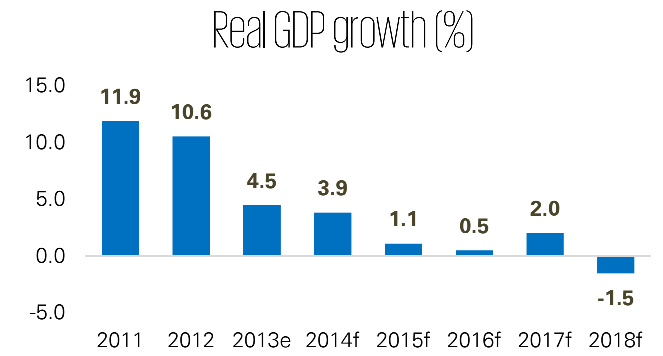
Economic structure – The small primary sector in Zimbabwe is integral to the country's economy. This sector contributes 13% to GDP and Zimbabwe's second largest export product is tobacco (with the largest being precious metals), thus being the country's most valuable crop. This is mainly due to the important source of employment that tobacco production presents. The secondary sector is of importance for Zimbabwe's development, since mining brings in a third of the country's export earnings through the extraction of precious metals. The tertiary sector, 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. The tertiary sector is the largest in the country and makes up 59% of the total GDP. According to the World Travel and Tourism Council (WTTC) the total contribution of tourism to the Zimbabwean GDP was 8.1% of GDP in 2016. Wholesale and retail, transport and storage as well as communications is other main contributors to the large services sector.

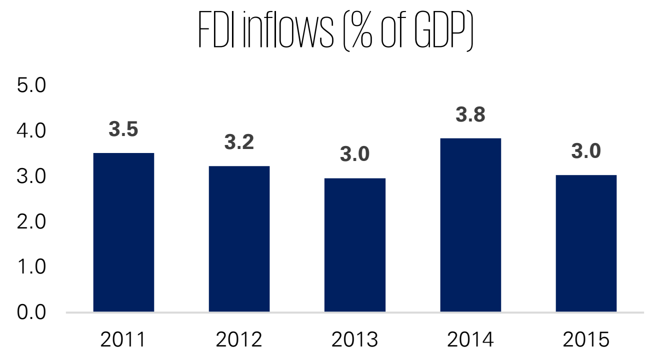
Economic structure as % of GDP 2015



Source: World Bank: World Development Indicators

Economic growth – According to the International Monetary Fund (IMF), Zimbabwe's real GDP growth declined yearly from 2011 until reaching a mere 0.5% in 2016. The 2017 forecast is somewhat stronger at 2.0% on the back of optimism about a larger tobacco crop. Encouragingly, leaf auctions were around 40% y-o-y higher in value by the middle of April. There are various reasons for this lacklustre trajectory in economic growth in Zimbabwe as economic development over the long-term will be largely dependent on the success of much needed reforms. Slowing population growth means that robust levels of economic growth will be dependent on the governments' ability to attract investment and improvement productivity, following a number of painful but inevitable reforms. These reforms include de-dollarisation and controlling expenditure to further clear arrears with international financial institutions.



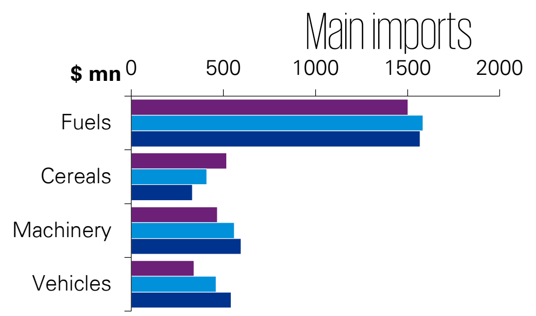


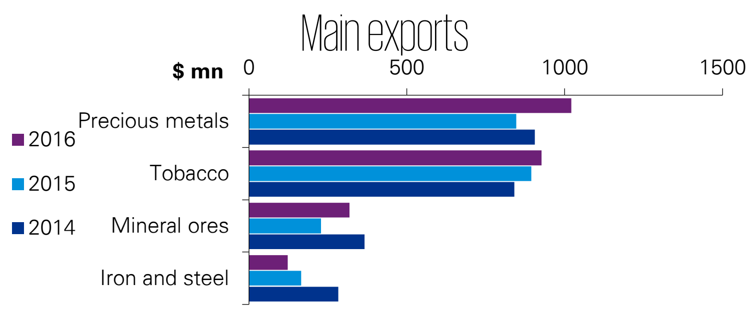
Sources: IMF, United Nations Congress on Trade and Development (UNCTAD)

Foreign investment – Since 2009, the government of Zimbabwe has tried to implement various measures to attract foreign direct investment (FDI). However, there are significant barriers in the country, such as the indigenisation law and economic empowerment laws, as well as little protection of property rights. BMI ranks Zimbabwe 45th out of 48 countries in Sub-Saharan Africa for investment attractiveness due to deteriorating economic growth, political instability and doubts over the credit-worthiness of the Zimbabwean government (which does not have a sovereign rating). The country's FDI prospects are also hampered by the shifting implementation of indigenisation laws, with a lack of clear guidelines pertaining to the country's empowerment legislation.

In an attempt to attract FDI, Zimbabwe plans to set up special economic zones (SEZs) in seven new areas in the country. 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. On another positive note, the state-owned The Herald newspaper reported in April 2017 that 7 (out of a promised 13) bills have been tabled aimed at improving the ease of doing business in the country – currently ranked in the bottom 15% of countries worldwide. Some of these bills address state procurement and retail licensing.

While the government is attempting to improve the ease of doing business climate, investors are still elusive towards FDI into the country due to the poor economic conditions and unpredictable policies. According to UNCTAD, FDI flows into Zimbabwe were valued at $421 million in 2015, down from $545 million in the previous year.



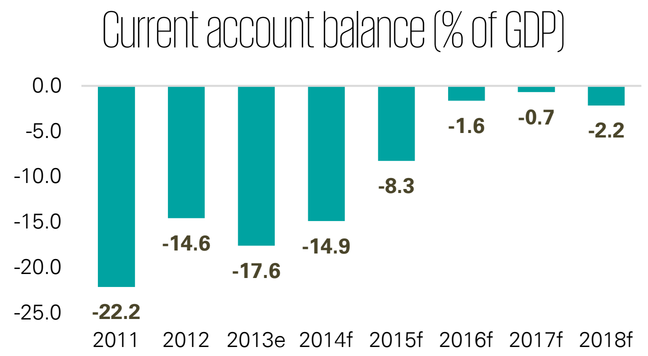


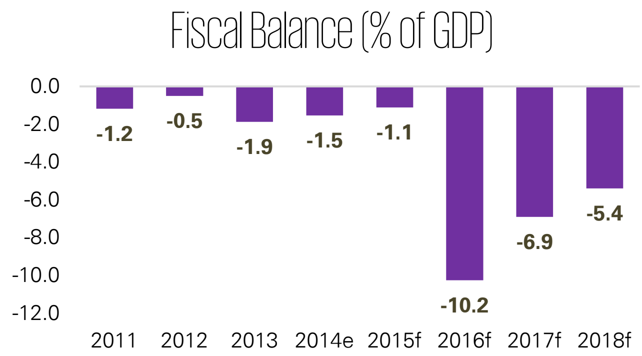
Main Imports: % share of total	2014	2015	2016
Fuels	24.6%	26.4%	28.8%
Cereals	5.2%	6.8%	10.0%
Machinery	9.3%	9.3%	9.0%
Vehicles	8.5%	7.7%	6.5%

Main Exports: % share of total	2014	2015	2016
Precious metals	29.5%	31.3%	36.0%
Tobacco	27.4%	33.1%	32.7%
Mineral ores	11.9%	8.4%	11.3%
Iron and steel	9.2%	6.1%	4.3%

Source: Trade Map

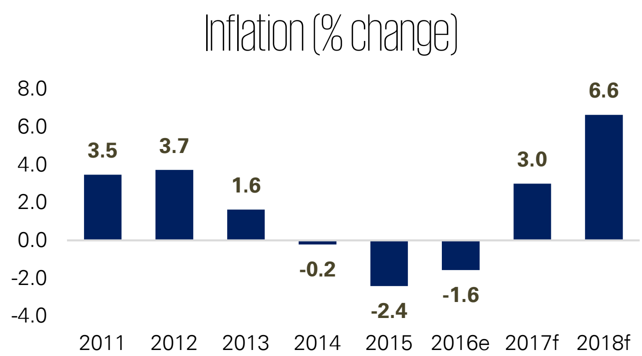
External trade – Zimbabwe's current account deficit has improved since 2011. The shortfall is forecast at 0.7%of GDP in 2017, though is expected to be larger again in 2018 at 2.2% of GDP. The improvement since 2011 can be attributed to Zimbabwe's better external position, associated with stronger export revenues driven by rising tobacco prices and production. This, in addition to the gradual de-dollarisation of the economy, have also freed up hard currency for imports. This will ultimately lead to less constraints on GDP growth. Nonetheless, Zimbabwe's import-dependence will still absorb this effect somewhat as any increase in hard currency circulating the economy will soon be lost to goods and services brought in from abroad. Until structural weakness within the country's balance of payments position is not solved, a threat to economic stability will remain.





Source: IMF

Fiscal policy – Zimbabwe's fiscal position is forecast to recover modestly from 2016 towards 2018. Increased tobacco harvests and higher commodity prices strengthen revenues, yet elevated levels of political risk will sustain pressure on expenditure, particularly into relatively unproductive allocations such as the defence budget. Zimbabwe's large external debt is one of the main barriers to macroeconomic stability in the country. According to BMI, Zimbabwe owes the World Bank $1.15bn and African Development Bank $601mn. BMI believes that it is possible that the government may finally unfreeze multilateral lines of credit in 2017. Zimbabwe could alternatively opt to rely on assistance from economies like China, which does not place political conditions upon loans and grants and instead looks for compensation in the form of natural resources and commercial opportunities.



Source: IMF

Monetary policy – By April 2017, the Reserve Bank of Zimbabwe (RBZ) had issued $121 million worth of bond notes in order to boost the value of hard currency circulating in the economy. However, despite the introduction of bond notes, long queues remain a permanent feature at ATMs and bank branches, especially around the time that civil servant receive their salaries. The RBZ has on several occasion refuted claims that it is planning to officially adopt the South African rand as the country's currency. The rand is currently part of a basket of currencies that can be used in Zimbabwe, with the system dominated by the US dollar.

Headline inflation increased from 0.2% year-on-year (y-o-y) y-o-y in March to 0.4% y-o-y in April. As Zimbabwe operated with no official discount rate or sovereign currency, monetary policy has been beyond the RBZ's control over the past eight years since the hyper-inflated Zimbabwean dollar was abandoned as the country's official currency. The growing shortage of cash in the Zimbabwean economy has led to the government unofficially beginning the process of de-dollarisation via the introduction of bond notes. Zimbabwean monetary policy will in the medium term revolve around the pace at which the central bank injects bond notes into the economy over the coming quarters. However, on April 23rd, RBZ Governor John Mangudya commented that the central bank will not immediately issue new bond notes, and hopes that a successful tobacco auction will boost the country's money supply.

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