

#ZimIndustry\_Insights

# IDLE CAPACITY IN THE MANUFACTURING SECTOR: EXPLOITING UNTAPPED OPPORTUNITIES

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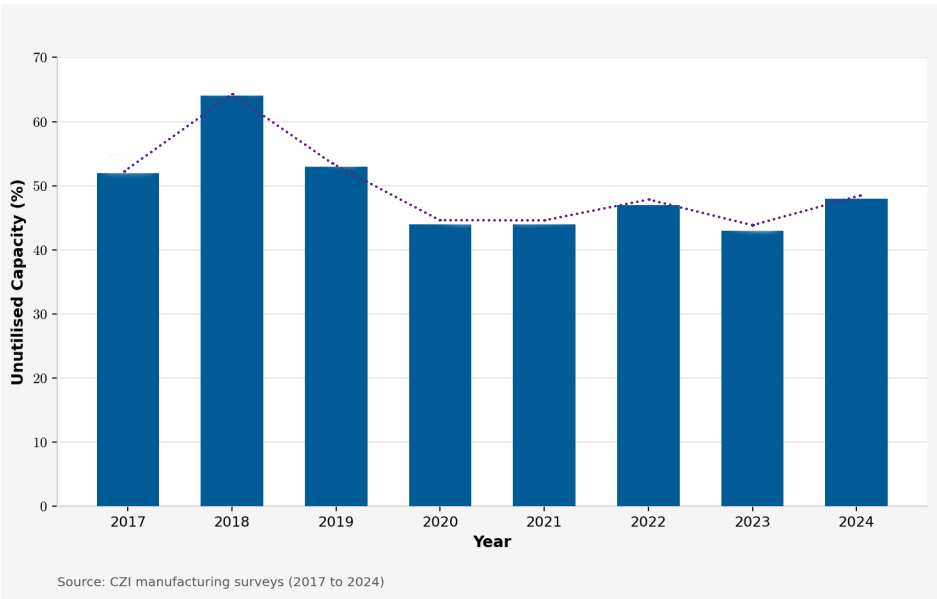




## SHOULD WE BE INTERESTED IN CAPACITY UTILISATION VALUE?

While the capacity utilisation measure attracts considerable attention in discussions of industrialisation and policymaking, it can be misleading in situations where a decline of the measure results from new firm investments that expand plant capacity. In such cases, plant capacity utilisation may be increasing, but at a slower pace than investment-driven plant capacity expansion. Consequently, a decline in capacity utilisation does not necessarily indicate a reduction in production. Rather, the critical issue is how best to make use of the idle capacity. Unutilised or excess capacity in the manufacturing sector has remained persistently high, above 40 percent, despite a notable decline from over 60 percent in 2018 to below 50 percent in 2020. Since 2020, unutilised capacity has largely stagnated, averaging around 45 percent (Figure 1). This reflects a substantial level of idle capacity within the manufacturing sector.

**Figure 1: Excess capacity in the manufacturing sector**



Source: CZI manufacturing surveys (2017 to 2025)



## **POLICY IMPLICATIONS OF PERSISTING EXCESS CAPACITY**

The persistence of excess capacity indicates a sub-optimal level of manufacturing output under the current policy environment. Firms' limited adjustment in reducing unutilised capacity suggests the presence of a conditional steady state in the manufacturing sector. In effect, the prevailing policy framework appears to set an equilibrium level of capacity utilisation that is significantly below installed manufacturing capacity. Consequently, in the absence of comprehensive policy reforms, the sector risks remaining trapped in a low-capacity-utilisation equilibrium, with unutilised capacity of around 45 percent becoming a structural feature. Nevertheless, maintaining such high levels of excess capacity is costly for both businesses and the broader economy. Reducing unutilised capacity presents significant opportunities for industrial expansion, job creation, and increased fiscal revenue.

## **COSTS AND OPPORTUNITIES OF UNUTILISED CAPACITY**

Idle machinery and labour represent foregone output and revenue for producers, as well as lost tax revenue for the government. With unutilised installed capacity of around 45 percent, manufacturing output could increase by approximately 45 percent if this capacity were fully utilised. Most firms do not retain idle labour for extended periods; instead, they lay off or retrench workers. Consequently, reducing excess capacity can lower labour idleness and support employment growth. In the manufacturing sector, data from a sample of 150 firms show that a median firm operating at 45 percent capacity utilisation employs an average of 1.23 employees per unit of capacity utilisation. This corresponds with approximately 56 employees per median firm at the current level of capacity utilisation. Therefore, reducing unutilised capacity has the potential to significantly decrease idle labour and increase employment. In addition to higher output and improved labour utilisation, government tax revenues would also rise substantially.

Unutilised capacity raises fixed costs per unit of output—such as rent, maintenance and repairs, depreciation, property taxes, and insurance—because potential output is foregone. When firms operate at only 55 percent of installed capacity rather than at full capacity, fixed costs are spread over a smaller volume of output. Assuming a linear relationship between output and capacity utilisation, a 45 percent level of unutilised capacity in the manufacturing sector increases fixed costs per unit by at least 80 percent. Reducing unutilised capacity would lower overall production costs and enhance economies of scale. This, in turn, would improve export competitiveness and stimulate demand for domestic products in foreign markets. For many firms, a substantial share of idle capacity was installed specifically to serve export markets; therefore, there is considerable scope to increase the production of exportable goods through better utilisation of existing capacity. However, this can only be realised if the sector's competitiveness improves.

There are thus significant benefits to reducing unutilised capacity at both the microeconomic and macroeconomic levels. These include higher industrial output, improved efficiency, lower production costs through economies of scale, better labour utilisation and employment growth, enhanced competitiveness, and increased exports. Strengthening the competitiveness of manufacturing firms is essential not only for boosting export revenues but also for safeguarding jobs in the context of the African Continental Free Trade Area (AfCFTA). Notably, the persistence of approximately 45 percent idle capacity is also associated with the importation of jobs that could otherwise be created domestically.



## THE CONUNDRUM OF REDUCING IDLE CAPACITY IN THE SECTOR

Evidence on capacity utilisation from 2020 to 2024 indicates that manufacturing firms have been unable to reduce idle capacity below 40 percent. The sector appears to be trapped at a level of capacity utilisation beyond which firms are unable to make further progress. The central challenge, therefore, is how firms can escape this low-capacity utilisation trap, which continues to constrain performance and growth.

In principle, firms have two pathways out of this trap. The first is to increase capacity utilisation by expanding output, thereby lowering unit production costs through economies of scale. However, this approach has proven difficult due to persistent constraints, including a highly regulated business environment, historical

economic instability, limited access to foreign currency, electricity shortages, and instability in economic policy (multitudes of Statutory Instruments (SIs)). The second pathway is to reduce production costs first, which would then enable firms to expand output and lower idle capacity. It is under this second option that government policy intervention can play a critical role in helping manufacturing firms escape the 45 percent idle-capacity trap. For example, the ongoing regulatory reforms being implemented by the government, together with the 24-hour production tax incentives for manufacturing firms introduced by the Treasury in the 2026 National Budget, represent a positive step toward breaking this persistent idle-capacity constraint.

One key policy option for addressing the idle-capacity problem is a comprehensive review of the regulatory framework, particularly taxes and fees. Such a review could reduce production costs and enhance the competitiveness of domestic manufacturers relative to regional trading partners. The government's ongoing regulatory reforms should be intensified and broadened to encompass all economic sectors. Importantly, this approach may reduce idle capacity without a significant loss of government revenue, as reductions in certain taxes and fees could be offset by higher output and increased revenue from output-based taxes such as value-added tax (VAT). Evidence from countries with low levels of idle capacity in manufacturing, for example, China, where

unutilised capacity is below 26 percent, shows that a 1 percent reduction in taxes or fees is associated with a 0.6 percent reduction in idle capacity (Yang, Li, Liu, & Yin, 2021). In contexts such as ours, where idle capacity is substantially higher, a 1 percent reduction in taxes or fees is likely to reduce idle capacity by more than 1 percent, creating potential fiscal gains for the government.

Additional short-term policy measures include sustaining the current macroeconomic stability and improving the availability of foreign currency. Ensuring an uninterrupted supply of electricity remains a critical medium- to long-term priority for improving capacity utilisation in the manufacturing sector.

This is a publication of the Confederation of Zimbabwe Industries for its members.  
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