ECONOMIC OUTLOOK

2020

"The Last Leg of the Transitional Stabilisation Plan"

CZI
CONFEDERATION OF
ZIMBABWE INDUSTRIES
Enterprise Leadership Service

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About the Outlook

The CZI Economic Outlook is an annual publication which started in 2020 after years of hosting a symposium on the economic outlook. The Economic Outlook symposium was traditionally an iteration of the fiscal policy and monetary policy and how they would impact the business operating environment. The confederation has gone further to translate policy iterations, scenarios, projections and debate into an annual publication that characterises Zimbabwe and the key variables in the local environment as well as its relationship with the continental and global outlook.

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INTRODUCTION

The 2020 Outlook is in the context of the ''Last Leg'' of the Transitional Stabilisation Programme'' which is concluding under the budget theme ''Gearing for Higher Productivity, Growth and Job Creation''. The TSP was enunciated in October 2018 and outlined the following objectives:

OBJECTIVES OF THE TSP

- *Stabilizing the macro-economy, and the financial sector.*
- *Stimulation of growth and creation of employment.*
- *Removal of distortions.*
- *Savings Mobilization.*
- *Reorientation of the economy towards competitiveness to ease the doing business environment.*
- *Sustained external flows.*
- *The thrust for the TSP is to have more value addition and beneficiation in the manufacturing sector.*
- *Infrastructure development for Key Economic Enablers.*

The 2020 Outlook evaluates the Macro-Economic promise contained in the TSP and 2020 Budget and Monetary policy statement against the obtaining and unfolding market conditions.

Businesses can iterate their business strategies with this outlook

Policy makers can derive policy priorities from this publication.

Key areas of focus are:

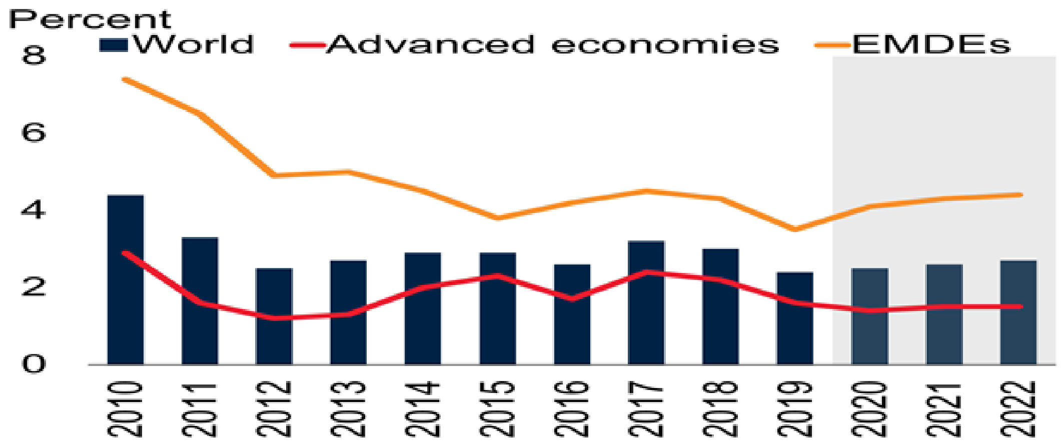
- *Economic Growth Projections*
- *Real Sector dynamics*
- *Money Market stabilisation*
- *Foreign Currency Stabilisation*
- *Goods and Services market stabilisation*
- *Global and continental context*

ECONOMIC OUTLOOK 2020

GLOBAL AND CONTINENTAL CONTEXT

ZIMBABWE'S 2020 PROSPECTS IN RELATION TO GLOBAL OUTLOOK

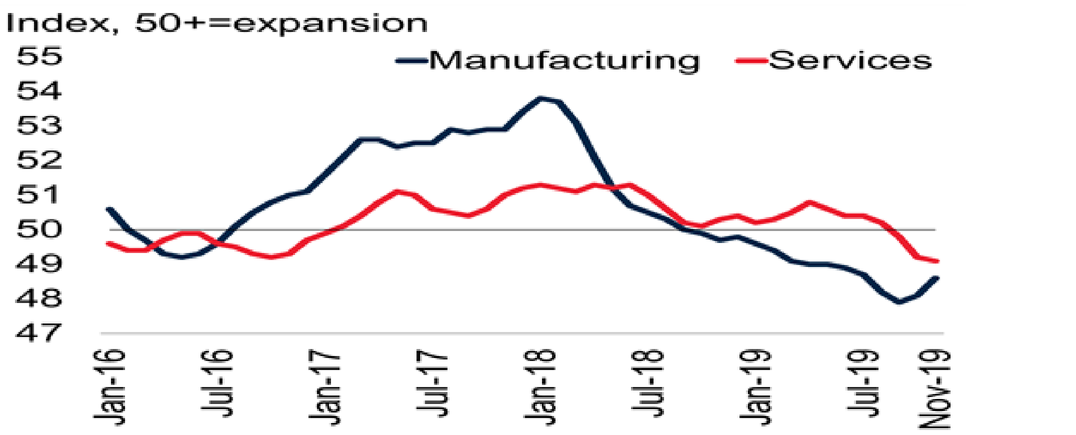
Global growth is picking up to 2.5 percent after a difficult year in 2019. However, recovery is still fragile and largely below long-term averages. The Global economic growth trend is not likely to deliver marked improvements in living standards and poverty reduction.



Source: World Bank.

Note: EMDEs = emerging market and developing economies. Shaded area indicates forecasts. Data for 2019 are estimates. Aggregate growth rates calculated using GDP weights at 2010 prices and market exchange rates.

Global manufacturing and services export orders



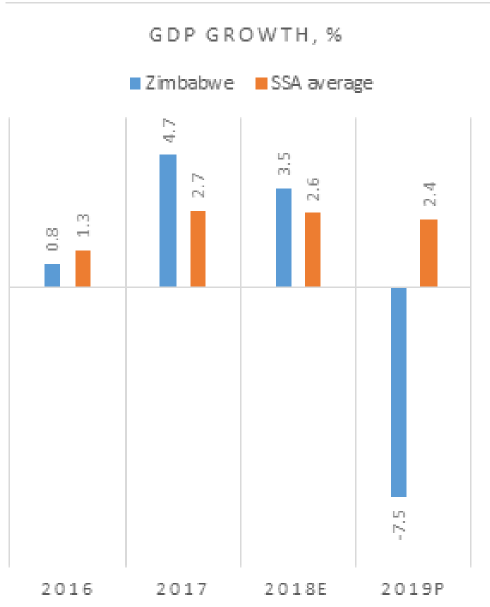
Source: Haver Analytics; World Bank. Note: Figure shows 3-month moving average. Purchasing Managers Index readings above 50 indicate expansion in economic activity; readings below 50 indicate contraction. Last observation is November 2019.

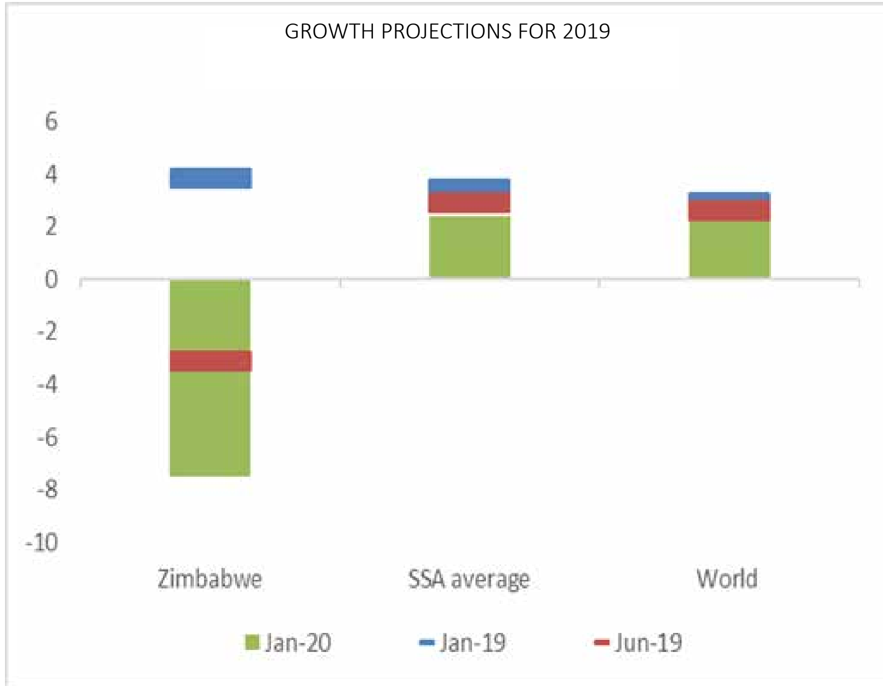
Global outlook growth is also weakened by weakening commodity prices as well as uncertainty and high level of risks.

Growth Prospects for Zimbabwe

In 2019, Zimbabwe's economy was in recession after growing relatively faster than SSA. Uncertainty about Zimbabwe's outlook is very high after registering a decline in GDP of 7.5% in 2019.

GDP Growth for Zimbabwe in Relation to SSA and the World





According to the World Bank, external headwinds and domestic vulnerabilities have contributed to worsening of growth performance in Zimbabwe. After growing at higher pace than the average for SSA, Zimbabwe's GDP contracted sharply in 2019 as a result of devastating drought and Cyclone Idai, as well as economic adjustment effects.

The Word Bank has revised growth projections for 2019 for Zimbabwe significantly since last January. According to the above figure, optimism bias for Zimbabwe's economy was much higher than for other economies as it was difficult to predict the magnitude of the shocks on Zimbabwe's economy. The orange bar shows the most recent estimate, and the red line shows estimates made in January last year while green line shows June 2019 estimates.

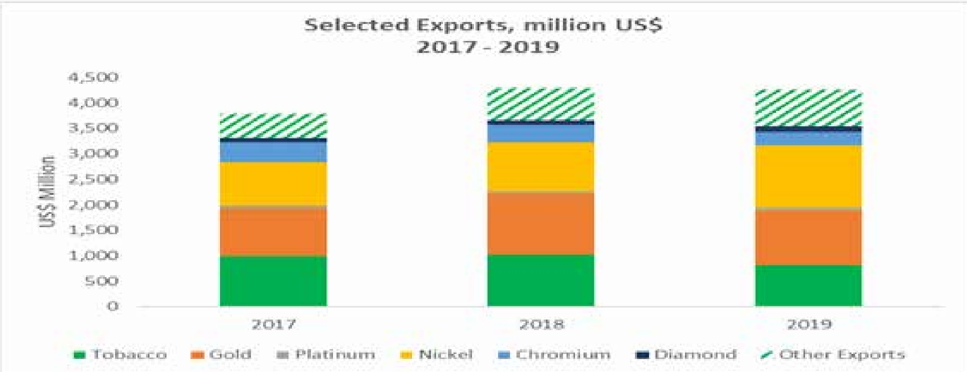
Maintaining prudent fiscal and monetary policy will be critical to contain further inflation growth.

Export Revenue

Prospects for exports will depend on external and domestic factors. External factors are not very promising due to weakening commodity prices. The following factors will influence export earnings in the outlook period.

- *Regional trade integration offers good opportunities for boosting exports.*
- *Most of Zimbabwe's main trade partners are expected to have better growth prospects in 2020.*
- *However, commodity prices are not likely to be favorable for Zimbabwe.*
- *Domestic factors that negatively affect productivity of producers and exporters might also be at play.*

Selected Export Earnings in US$ Million



Prospects for exports will depend on external and domestic factors. External factors are not very promising, as commodity prices on the international market.

Opportunities for Zimbabwe in the Global Outlook

In the outlook, opportunities for better growth prospects hinge on 3 pillars which include stabilizing the economy, boosting firm productivity and exports, and prevent deterioration of human capital.

1. Maintaining prudent fiscal and monetary policy will be critical to contain further inflation growth. Stabilizing prices and removing distortions on the forex market is key.

2. Boosting firm productivity is critical for growth and would involve the following

- *Addressing structural impediments to productivity growth in agriculture,*
- *Reducing informality, which is creating uneven playing field,*
- *Enhancing trade openness and trade integration.*
- *Mitigating the impact of unfavourable macro economy on the poor and prevent further erosion of human capital which has long-term implications on growth.*

3. Boosting Agriculture productivity entails

- *Ensuring secure land tenures,*
- *Better access to markets and finance, better crop choices,*
- *More effective and increased use of fertilizers,*
- *Improved irrigation,*
- *Diffusion and adoption of new technologies, as well as targeted training to help small farmers reap the benefits of cutting-edge knowledge and practices specific to the area and product.*

3. If inflation is not contained, poverty is likely to continue rising. In toto, global uncertainty remains high which accentuates the risks for another recession in Zimbabwe in 2020 as well as for rising poverty levels. Food (or extreme) poverty has increased to 38 percent of the population in 2019 from 30% in 2017. About 5.5 million, Zimbabweans in rural areas are food poor and 500,000 in urban areas. In total, 6 million people are in need of support for social assistance, and access to basic services—health, education, and water. There is therefore need to keep an eye on money creation as poverty is likely to further increase, requiring more social spending. This also entails mitigating the impact of extreme weather conditions and economic adjustment on the poor.

4. Enhancing trade openness and integration.

5. The current production and capacity gaps are indicative of immediate economic growth potential for Zimbabwe. Local firms need to capitalize on all the available productive capacity and compete on the international market. Some of the strategies employed by the listed companies include;

- *Emphasizing on the export market to ensure foreign currency supply to import raw materials.*
- *Improve energy mix to rely on renewable sources.*
- *Innovation to use energy saving equipment.*
- *Deploy cost cutting strategies.*

6. Zimbabwe's neighbours have a higher per capita incomes save for Mozambique (US$460) and Malawi (US$360) according to World Bank 2018 data. Zimbabwe can take advantage of its rich neighbours to boost exports.

ZIMBABWE'S 2020 PROSPECTS IN RELATION TO THE REGIONAL OUTLOOK

African Economic Outlook 2020

Africa's economic growth is expected to increase to 3.9 percent in 2020 from 3.4 percent in 2019. However, the growth targets are still below historical performance.

Economic growth by region in 2019

Eastern Africa	5.2%
Northern Africa	4.1%
Western Africa	3.7%
Central Africa	3.2%
SADC	0.7%

In 2019, SADC economic growth was dragged down by the devastating effects of Cyclones Idai and Kenneth as well as subdued commodity prices on the international market.

The major drivers of economic growth on the African continent include:

- *Investments – in 2019 investment expenditure accounted for more than 50% of GDP growth dynamics.*
- *Exports – net exports were also a strong contributor to economic growth in 2019.*

Opportunities for Zimbabwe in the Regional Outlook

Zimbabwe's economy is expected to recover with a GDP growth of 4.6% in 2020 on the back of:

1. Policy reforms

- *The government should sustain policy reforms to achieve faster economic recovery.*

2. Increased private and public sector reforms.
3. Reengagement with international community and political dialogue should unlock finance from international financial institutions.
4. Infrastructure Upgrading and Development

- *Zimbabwe should invest US$3.4 billion every year up to 2030 on infrastructure rehabilitation and development for the economy to achieve sustainable economic growth. Zimbabwe needs infrastructure development in the road, railway, energy and communication sectors of the economy.*

5. Agriculture

- *Zimbabwe must focus on drought resistant crops.*
- *Embracing irrigation technology and reduce reliance on rain fed agriculture.*

6. Harnessing Regional Integration Opportunities

- *Zimbabwe should take advantage of the African Continental Free Trade Area opportunities.*
- *Zimbabwe must also address the following:*

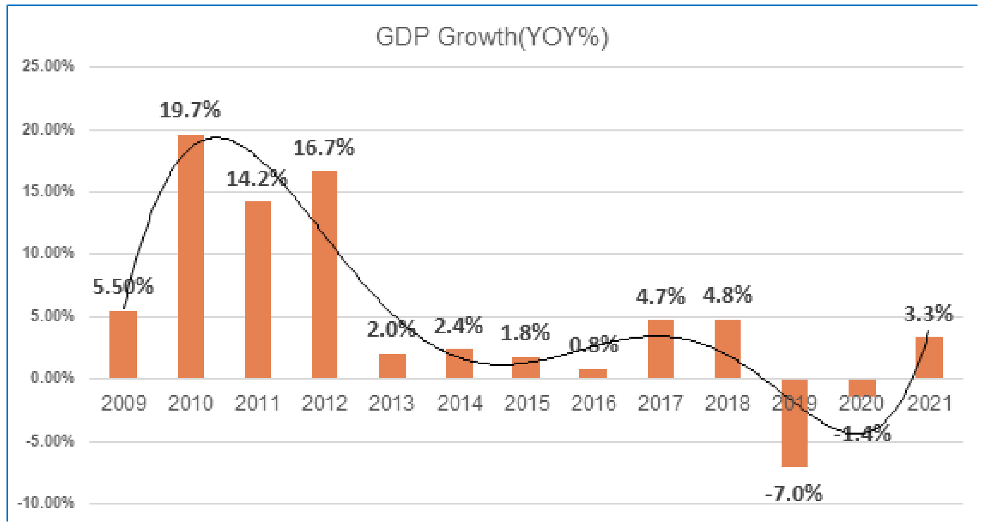
i. Debt Overhang for macroeconomic stability and sustainable development.
ii. Fiscal Deficit to remove currency instabilities.
iii. High cost inputs in line with balanced reorientation towards competitiveness.
iv. Continue with sustainable Land Reform policies which foster investment in agriculture.
v. External finance to address funding issues
vi. Streamline investment regulations and take advantage of the formation of the Zimbabwe Investment Development Agency to foster domestic and foreign investment. This should also address the issue of outdated machinery as well as encourage technology diffusion.

Zimbabwe's Economic Growth Projections for 2020

The economy is projected to grow by 3% in 2020 due to a good rainfall season, increased use of irrigation, smart agriculture, improved electricity supply and a stable macro-economic environment according to the 2020 Fiscal Policy. Fiscal incentives and improved investment will boost output. The projected 3% GDP growth is likely not going to be achievable due to contraction in economic activity across key sectors of the economy.

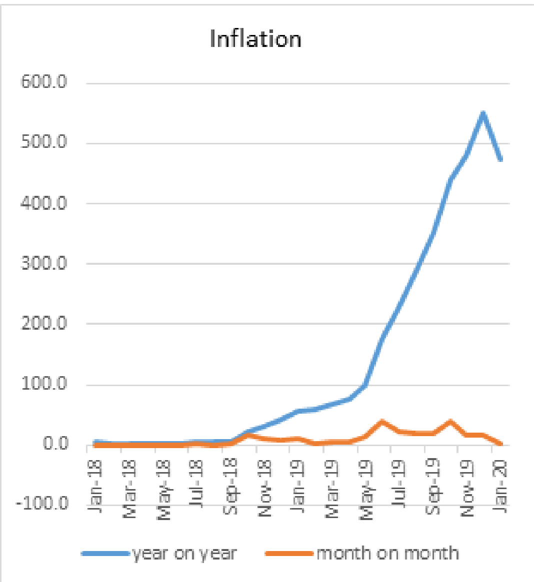
The figure below shows that GDP is projected to decline by-1.4% in 2020 against 3% growth that was projected in the 2020 Fiscal Policy.

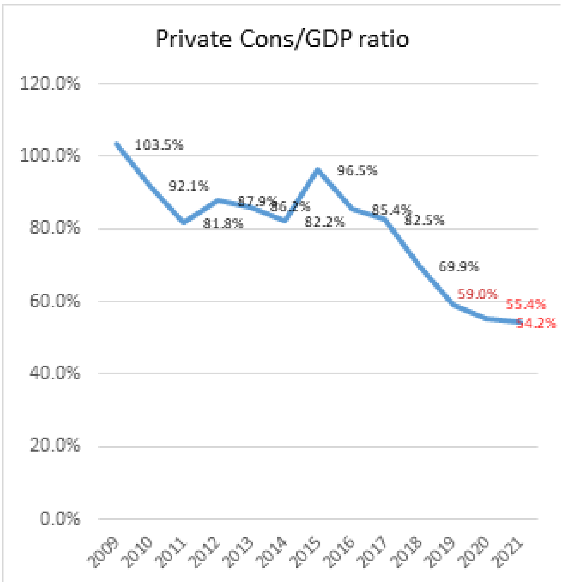
GDP Growth



FOREIGN CURRENCY AND INFLATION ITERATIONS FOR 2020

Inflation Vis-a-Vis Private Consumption GDP Ratio





Currency Stabilisation

It is of paramount importance to stem the instabilities that are obtaining in the currency market for viability, informed business planning and easier risk modelling.

Following the February 2019 unpegging of the exchange rate from the hard peg of 1:1 between the US dollar and the bond note and the subsequent introduction of the mono currency regime in June 2019, the exchange rate has deteriorated from 2.5 Zimbabwe dollars to the US dollar in February 2019 to 17 Zimbabwe dollars to the US dollar in November 2019.

The depreciation of the exchange rate was followed by a sharp rise in inflation from single digits in 2018 to more than 500% in December 2019. These developments tracked exchange rate movements, shortages of basic goods, including fuel, foodstuffs, and electricity.

Inflation pressures in the economy are emanating from:

- *Local Currency uncertainty*
- *Parallel markets for foreign exchange*
- *Reserve Money and Money supply Growth*
- *Inflation Expectations.*
- *Fuel price adjustments.*

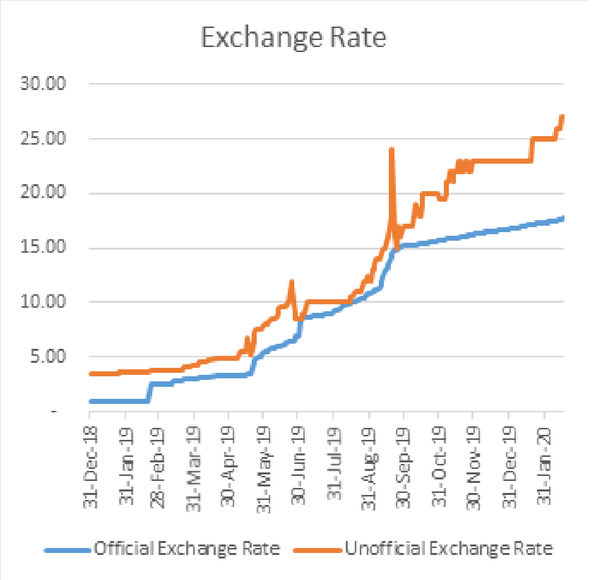
In the outlook period there is need to De-anchor Inflation Expectations through

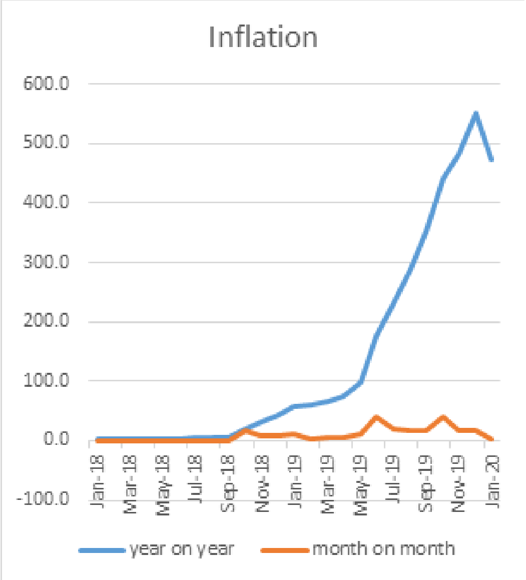
- *Tight control on money supply and Reserve Money growth*
- *Halting Money Supply growth should stem exchange rate depreciation*
- *Stabilising the foreign exchange market should de-anchor Inflation Expectations*
- *An effective Interbank Market for forex*
- *Remove price distortions*
- *Stabilising fuel prices*

Foreign Exchange Market

The foreign exchange market is experiencing instabilities due to foreign exchange shortages. Economic agents particularly the productive sector cannot access foreign exchange at the Interbank Market. Due to the ineffectiveness and inefficiencies of the foreign exchange interbank market, the foreign exchange parallel market is thriving and the premium is widening by the day, which directly feeds into inflation.

Exchange Rate and Inflation Developments





The foreign exchange market can be stabilised through:

- *Making the interbank market more liquid by reducing the surrender requirements.*
- *Efficient price discovery mechanism on the interbank market.*
- *Use of a unified exchange rate so that all forex subsidies are removed.*
- *Government to source forex at the interbank market.*

Money Market

- *Halt money creation to control money supply growth*
- *Remove interest rate subsidies.*
- *Improve cash availability to transacting economic agents*
- *Money Market*
- *Halt money creation to control money supply growth*
- *Remove interest rate subsidies.*
- *Improve cash availability to transacting economic agents*

Labour Market

The Tripartite Negotiating Forum should deliver a win-win outcome between labour and employer

Structural Bottlenecks

In addition to foreign exchange and cash challenges, structural bottlenecks remain attendant constraints in the economy. In the outlook period, particular attention should be paid to the following variables to achieve sustained economic growth.

- *Energy and power shortages.*
- *Fuel shortages.*
- *Sub optimal railway transport bottlenecks.*
- *Rising Corporate and household debt.*
- *Mobilising long term deposits.*
- *Declining industry capacity utilization*

Foreign exchange challenges are a symptom of deep underlying structural and macroeconomic challenges currently affecting economic recovery and growths.

ECONOMIC OUTLOOK 2020

THE REAL SECTOR DYNAMICS IN 2020

Agriculture

The Agriculture sector is estimated to contribute 12% to GDP according to the World Bank and contributes 22% to export earnings.

The Agriculture sector will be affected by contracting output in its major sub sectors due to an unreliable rainfall pattern as the agriculture economy relies heavily on rain fed operations.

- *Maize output is projected to decline to 500 000 metric tonnes according the ZCFU creating a huge deficit of 900 000 metric tonnes, which deficit will be met by imports.*
- *In 2020, tobacco deliveries should achieve (255 million kgs) at US$2.02 against an average price of US$2.92/kg for 2019. Tobacco inflows projected at $526.6 against $737.4 m that was realised in 2019 signifying a 28.57% decline in foreign currency revenue.*

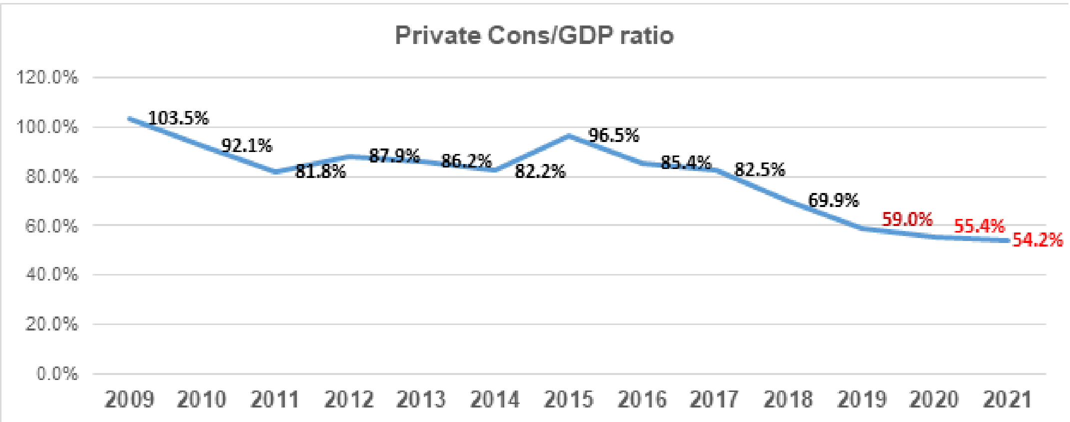
Manufacturing

The Manufacturing sector contributes 8% as a share of GDP according to the World Bank. Manufactured exports contribute 15% to export revenue according the information from the RBZ.

The Manufacturing sector is projected to grow by 1.9% according to the 2020 Fiscal Policy. However the 2019 Manufacturing Sector Survey results have shown that this growth in the value adding sector may not be achievable. The survey results indicated that having realised average capacity utilisation level of 36.4% in 2019, industry captains have projected that capacity utilisation will decline further to 27% if there is no drastic policy change in 2020. The iterations of the root cause analysis of low capacity utilisation is hovering around foreign currency shortages, with downstream effects on raw material shortages, power and fuel shortages, exchange rate depreciation, inflation and reduced aggregate demand.

The figure below shows that private consumption as a percentage of GDP is declining. In 2020 the ratio is expected to decline to 55.4% compared to 59% for 2019. Thus the Manufacturing and Agriculture sector will be affected by declining aggregate demand in the outlook period.

Private Consumption as a Percentage of GDP



The foreign currency challenges that the economy is experiencing are a symptom of deep underlying structural and macroeconomic challenges that are currently affecting economic recovery and growth.

Mining

The Mining sector contributes approximately 8% to national GDP and 62% to export revenue.

Mining sector is projected to contract by double digit figure. Gold mines are operating at 30- 35% of capacity. Gold Output in 2019 to July registered 29.2% decline in output. Platinum registered a flat growth rate. Chrome is projected to decline by 17%, Nickel (5% decline) and Coal (43% decline).

In the outlook period the mining sector will be affected by power shortages on the domestic front and weakening commodity prices on the international market.

The Distribution Sector

There has been a sharp contraction in Retail activity in 2019 and this trend is expected to continue in 2020 on the back of real wage contraction due to exchange rate depreciation and inflation. Huge wage contraction and falling disposable incomes as wage levels are now estimated to be 17 to 18% of what they were 12 months ago. The figure below shows that private consumption as a ration of GDP is on a downward trend as it tracks inflation developments. Private consumption is expected to decline in 2020 to 55.4% compared to 59% in 2019 with knock-on effects on the Distribution sector as incomes dwindle.

COMPANIES PERSPECTIVES AND INSIGHTS INTO 2020

This section outlines the outlook for industry highlighting perspectives, perceptions and insights from various industry players. The information was collated from policy documents/pronouncements, news, market intelligence and economic outlook reports from company and industrial reports.

Companies indicated that low demand, currency instability, foreign currency shortages and unreliable power supply are expected to weigh down the doing business environment in the short term outlook. The following is the interpretation of the outlook period according to industry captains, company reports, the 2019 Manufacturing Survey results and the information is segmented according to industrial activity.

According to the 2020 National Budget, GDP growth shrunk by about 12% points to -6.5% in 2019 and various sectors in the economy experienced output decline in line with the overall decline in GDP growth. The African Development Bank highlighted that GDP growth contracted by 12.8% in the same year.

The results of the Manufacturing Sector Survey indicated that capacity utilisation declined by 11.8 percentage points from 48.2% in 2018 to 36.4% in 2019. This finding augers well with data that was released by the 2020 Monetary policy where FDI declined from US$ 717.1 million in 2018 to US$259 million in 2019. For 2020 decisive policy action is needed to guarantee market stability in the following areas to avert further decline which is likely to plunge to about 27%:

- *Foreign exchange market instability*
- *Money market instability*
- *Goods and services market instability*
- *Energy (Electricity and Fuel) instability*
- *Labour market instability*

Industry is calling for policy measures that would push capacity utilisation to above 50% in order to gear for growth as espoused in the 2020 National Budget and the TSP. The 2020 Monetary Policy Statement also indicated that the Current Account deficit narrowed from US$1.387 billion in 2018 to a surplus of US$311.2 million in 2019. It is a matter of concern to note that the Current Account surplus was realised on the back of a sharp decline in raw material and intermediate inputs imports, which are critical for production to take place. Indeed, the Manufacturing Sector Survey results have highlighted that the root cause of low capacity utilisation is shortage of foreign currency to import raw materials, energy, fuel, inflation (whose genesis can be tracked back to forex challenges). And the RBZ acknowledges that some of the hardest hit imports are key inputs into production such as chemicals and energy.

RETAIL

The retailing sector expects product supply from the local and international markets to remain a challenge due to foreign currency shortages.

For example sales volumes for OK Zimbabwe, dropped by 15 percent for the third quarter for the financial year ending March 31, 2020 on the back of the hyperinflation environment that has eroded consumer incomes.

The retailing giant cited unstable and challenging business conditions characterised by currency depreciation, erratic power supplies, product supply challenges, and significant increases in operating costs as the major reasons for the drop in sales.

The retail sector will focus on strategic linkages with suppliers for restocking. Retailers will put more emphasis on growing market share profitability through continuously enhancing customer value proposition. Refurbishment of stores and opening of new stores will be implemented to counter the effects of the negative short term outlook.

BANKING

Financial institutions are not immune to economic challenges, geo-political strife and negative international perception, even if the correlation between financial markets and growth in the economy is weak. The present political and economic climate creates a wide range of challenges across many industries, which result in difficulties but also opportunities.

The banking sector believes that currency reforms, robust monetary policy interventions, the continued international re-engagement efforts by the government are critical to the future performance of financial institutions.

CLOTHING AND FOOTWEAR

The prevailing liquidity challenges impacts negatively on stocking and growth initiatives while low demand due to low disposable incomes affects business viability.

The sector will strive to increase investment in merchandise as well as increasing trading space locally and internationally.

DRINKS, TOBBACCO AND BEVERAGES

The sub sector is negatively affected by reduced disposable income and a difficult operating environment has resulted in subdued trading. The Government changed duty structures which has effectively doubled excise duty on products. This has the impact of reducing sales as consumers continue to suffer income erosion due to inflation.

The companies will continue to deploy strategies that protect Company and shareholders' interests.

Delta Corporation Limited (Delta) has reported a 48% tumble in lager beer volumes during the half year period ending September 2019. Lager beer volume declined by 40% for the quarter and 48% for the six months compared to the same period last year. Further, sorghum beer volumes in Zimbabwe fell by 29% for the quarter and 15% for the six months to September.

FOOD STUFFS

Challenges in the trading environment in Zimbabwe are expected to persist due to currency speculation, and inflationary pricing at a premium over the official inter-bank rate. Constrained consumer spending habits and resultant down trading activity will remain a challenge for the business in 2020. Foreign currency supply remains restrained resulting in delays in servicing external obligations which hampers business continuity. The Mono currency regime is likely to have negative impact on the doing business environment since it has resulted in currency ambiguity and an uneven playing field between the formal and informal sectors.

Profitability in the outlook period is hinged on exports and increasing market share in the household consumption space.

Oil Expressers Association of Zimbabwe (OEAZ) indicated that this year's production of soya beans will decline by 20 percent which exerts pressure on the country import bill. On average its members are operating at 20 percent capacity utilisation due to viability challenges. Some have shut down, and others are considering cutting down on working hours or outright retrenchments.

Oil expressers indicated that they need USD 20 million a month but are only getting USD4 million on the interbank market, which is only 20 percent of their total requirements.

Starafrica Corporation limited (SCL) reported an 8% drop in sugar sales for the 9 months to December 2019 due to acute electricity challenges. Sales volumes for Country Choice Foods dropped by 35% compared to the previous period.

MINING

The sector is negatively influenced by unstable power supply and tax regimes remain unfavourable especially the surrender requirements.

Gold mines are operating at 30 to 35% of capacity. Mining sub sectors registered the following declines:

- *Gold Output to July (29.2% decline).*
- *Chrome (17% decline).*
- *Nickel (5% decline).*
- *Coal (43% decline).*

In the outlook period, the mining industry is set to benefit from dedicated power supply and investment to replace obsolete machinery.

TELECOMMUNICATIONS

The sector expects strong demand for all the products and services and should be able to adapt to difficult operating environment.

OTHER MANUFACTURED PRODUCTS

It is difficult to tell where our country is going due to uncertainties and instabilities in the market. In the short term outlook period, cost cutting measures will be implemented where possible in addition to introducing new products in the market.

For instance ART Holdings Limited indicated that its paper segment volumes dropped by 46% as a result of failing to meet orders following increased load shedding. Also volumes for Softex fell by 23% due to delays in receiving raw materials.

BUSINESS CONFIDENCE INDEX

According to the BCI survey results for the fourth quarter of 2019, business is pessimistic regarding the economic recovery prospects of the country. Business has shown lack of confidence on improvement in the country's economic situation. Using the following variables, the BCI survey assessed the opinions of those in charge of manufacturing enterprises regarding their situation and expectations:

- *Overall economic situation*
- *Inflation and exchange rate*
- *Capacity utilisation*
- *Volume of production*
- *Employment*
- *Investments*
- *Profitability*
- *Exports*

The survey results showed that business is expecting a worse situation for all the variables in the outlook period. For instance, industry captains are expecting:

- *High inflation due to low output and imported inflation.*
- *Foreign currency shortages.*
- *Exchange rate depreciation due to a number of factors such as, increase in money supply.*
- *Low output due to the effects of drought,*
- *A general lack of confidence in the local currency by the market.*
- *Power and fuel shortages are expected to affect capacity utilisation, with knock-on effects on production and employment (reduced working hours).*
- *Low exports volumes and revenue.*
- *Reduced company profitability.*
- *Low investment levels due to a very difficult doing business environment.*

The above synopsis of industry outlook indicates that industry captains are not upbeat about the short term outlook period. This is due to a difficult doing business environment, with the policy making and implementation process lacking credibility due to policy inconsistencies and policy exceptions. Industry captains are also concerned about instabilities in the goods, money, foreign exchange and labour markets and a decaying infrastructure network.

CONCLUSION

A shared Vision for Zimbabwe's Economic Recovery/Growth is now critical.

Coordinating and harmonizing all economic actors, policies and institutions to the following imperatives will change the outlook.

- *Macro and Currency Stability.*
- *Removing all distortions.*
- *Priority for Savings and Investment (Not Consumption).*
- *Embracing ICT and Technology.*
- *Agriculture Recovery First (emulating the China, Indonesia & Malaysia models).*
- *Interrogating the Business Model for changing times.*
- *Building our own capital markets*
- *Embracing long term planning*
- *Seamless policy execution and implementation.*

A robust framework for reviewing, monitoring and evaluation of the policy formulation and implementation process should be put in place so that as policies are implemented, positive outcomes are reinforced while de-escalating policies with negative results. Policies with sub optimal results should be modified so that the desired results are achieved.

THE GEARS FOR GROWTH AND RECOVERY ARE IN DECISIVE AND SWIFT POLICY ACTIONS IN THE SHORT TERM