

# Zimbabwe *Economic Monitor*



Issue 0, April 2011



# Overview

- The economy is rebounding from a low base (about 45 percent decline during 1999-2008). In 2010, output growth was sharp, estimated at 9% following a 6% in 2009. 2010 growth has mostly been driven by mining 59% and agriculture 35%.
- The onset of recovery largely reflects macroeconomic stability associated with full dollarization, liberalization of goods markets, and exogenous factors which include rising platinum and gold prices and favorable weather conditions. Agriculture sector growth was led by tobacco and cotton.
- The recovery in manufacturing is very sluggish however. The sector continues to be constrained by unreliable electricity supply, high labor costs, credit rationing and overall tax and regulatory burden, against a background of increased competition from imports. Policy uncertainty regarding indigenization is holding back investment.
- Domestic price increase was modest (12-month change in CPI at the end of 2010 was 3.2%) but the price of essential items (housing, transport and services) and price of food is on an increasing trend.
- The current account (CA) deficit improved in 2010 but remained high. CA deficit at the end of 2010 was about 23.2 percent of GDP compared with 24.4 percent of GDP in 2009. CA deficit is financed by increasing arrears and short run capital inflows.
- Intermediation is returning rapidly to the banking system, but the banking system remains vulnerable.
- Zimbabwe's economy remains acutely vulnerable to macroeconomic shocks. The country has low level of international reserves and debt distress is high at the same time when short-term capital flows are the main source of external finance. The fast-tracking of indigenization process could further endanger capital inflows. Fiscal buffers are non-existent. The balance of risks is slanted to the downside.

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# Risk Profile

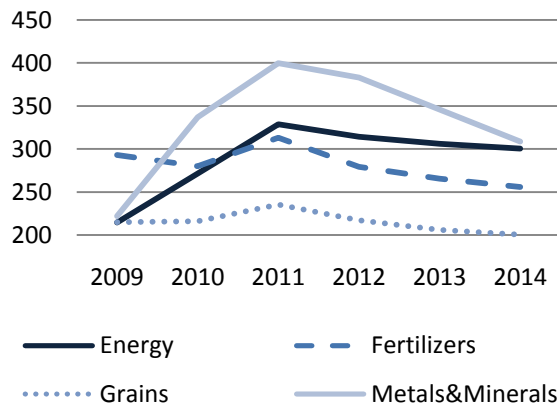
Risk	Level	Change Over end-2010	Indicators	Comments
Political	***	↑	Political situation	Election talk and uncertainty about President's health has unleashed political competition and political violence.
Real Sector	**	↑	Growth Rate	Increased business environment uncertainty around application of fast-tracked indigenization legislation in the mining sector.
Prices	*	↔	CPI Inflation rate	y-o-y: 3.2% at the end of Dec 2010 (from -7.7% in Dec 2009)
			Food and non alcoholic items inflation	y-o-y: 6.7% at the end of Dec 2010
			Bread and Cereals inflation	y-o-y: 5.1 % at the end of Dec 2010
Fiscal	*	↔	Revenue collections	29.4 % GDP: USD 2.2 bn in 2010 (16.7% of GDP in 2009)
			Overall balance	USD -215 million, -2.9% GDP, in 2010 (USD -193 million in 2009. i.e. -3.3% GDP)
External balance	**	↔	Current account deficit	23.2% of GDP: USD -1.73 bn in 2010 (24.4% of GDP in 2009)
			Usable international reserves	\$197 million end-Dec (0.3 months of import cover)
Banking	**	↔	Non-performing loans as a share of total loans	NPL ratio: 3.1% in Dec 2010 (1.8 % in Dec 2009)
			Capital adequacy ratio	For commercial banks: 17.6% in Dec. 2010 (21.6% in Dec 2009)
			Liquid assets ratio	30.8% in Dec. 2010 (40.7% in 2009)

(\*) low risk, (\*\*) moderate risk, (\*\*\*) high risk

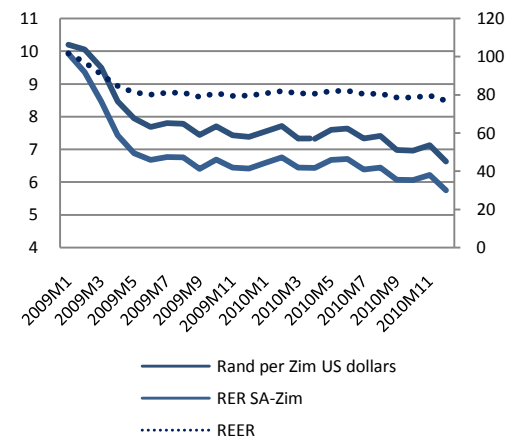
# World commodity prices are important for Zimbabwe

- High oil prices, now over \$166/bbl, are expected to have an impact on CPI.
- Food prices increase was led by maize (up 10.5%), and wheat (up 6.6%). After a steady increase from December to February, wheat and maize prices have declined in early March on uncertainty about global demand, before rebounding in the second half. In March, prices for Maize were 83% higher than a year earlier, while prices for Wheat were 63% higher.
- Most agricultural commodity prices have reached or exceeded their summer 2008 peaks but forecasts indicate that price increase for key food commodities may have paused, and set for a progressive decline in 2011-2012.
- Metal prices have declined in the recent weeks on concerns about the impact of political unrest and higher oil prices on economic growth. Prices are expected to remain strong throughout 2011.

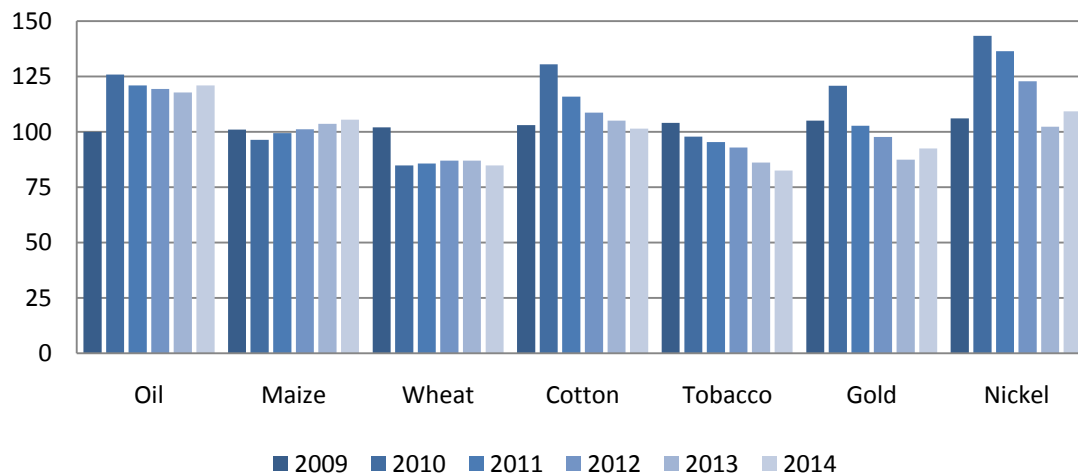
Developing Countries Commodity Price Index (current USD terms)



Rand/Z-USD Nominal and Real exchange rate (left axis) and Real Effective Exchange Rate (right axis)



Commodity prices forecast (2011-2014) (2009=100)



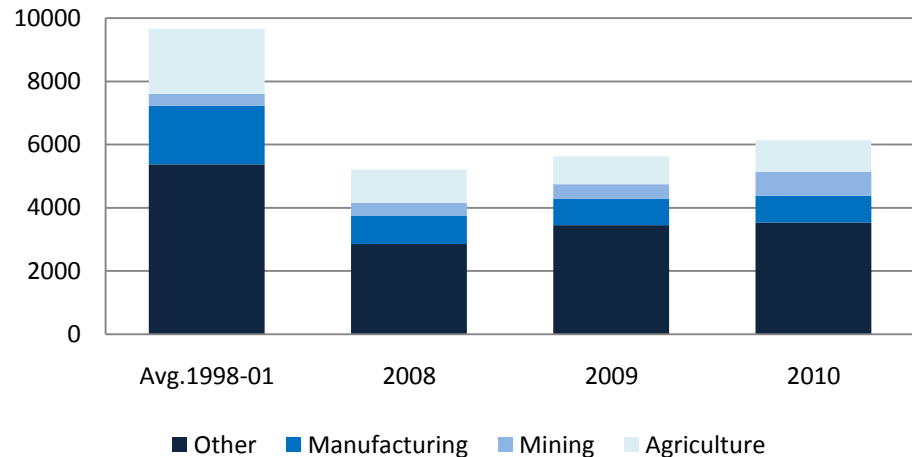
Source: IMF estimates

Source: World Bank, Prospects Group

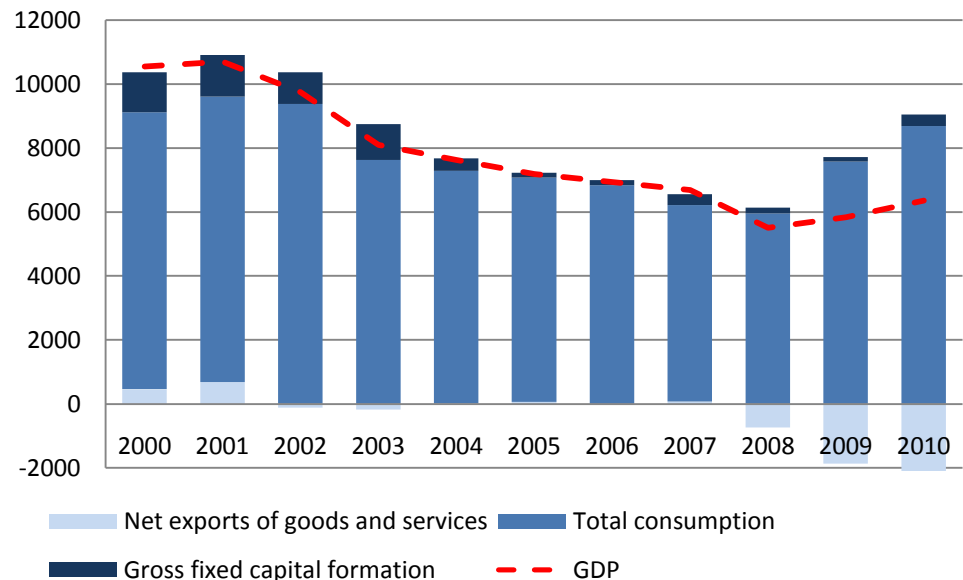
## The 2009-2010 turnaround is impressive

- Improved macroeconomic stability, associated with full dollarization, liberalization of grains and minerals marketing and high price of commodities have fostered a turnaround of the Zimbabwean economy in 2009-2010.
- Compared with the low point of 2008, by the end of 2010, real GDP expanded by 15%, volume of bank deposits (nominal USD) by 700%, and government revenues (nominal USD) by more than 1500%.
- Growth was 9% in 2010, mostly driven by recovery in the agriculture (35%) and mining (59%) sectors. If the 2009-10 trend (7.5% average growth) continues, Zimbabwe will recover to 1998-2001 level of GDP by 2017.
- The economy saw a consumption boom following stabilization as consumption exceeded national income in 2009 and 2010, financed largely by increased external indebtedness. Consumption has exceeded national income for several years now.

GDP by Sector, 1998-2010  
(Million 2009 USD)



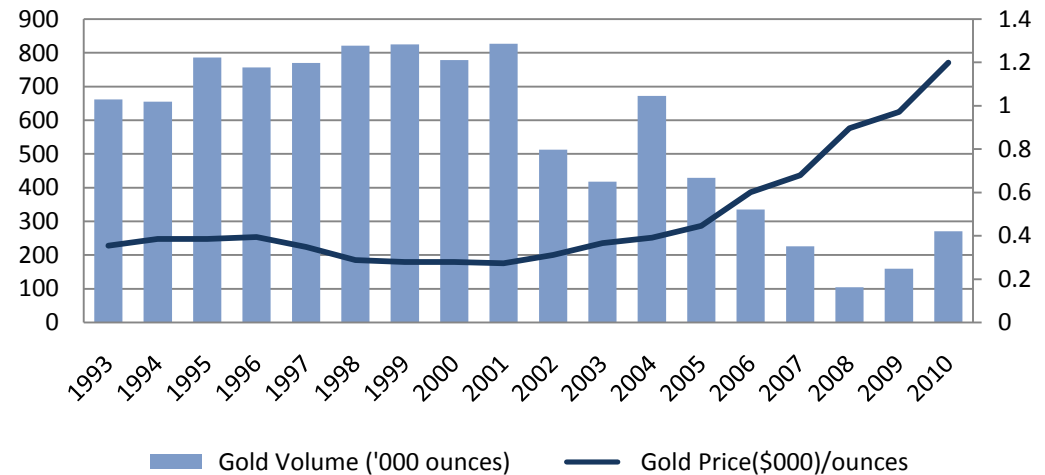
GDP expenditures  
(Million 2009 USD)



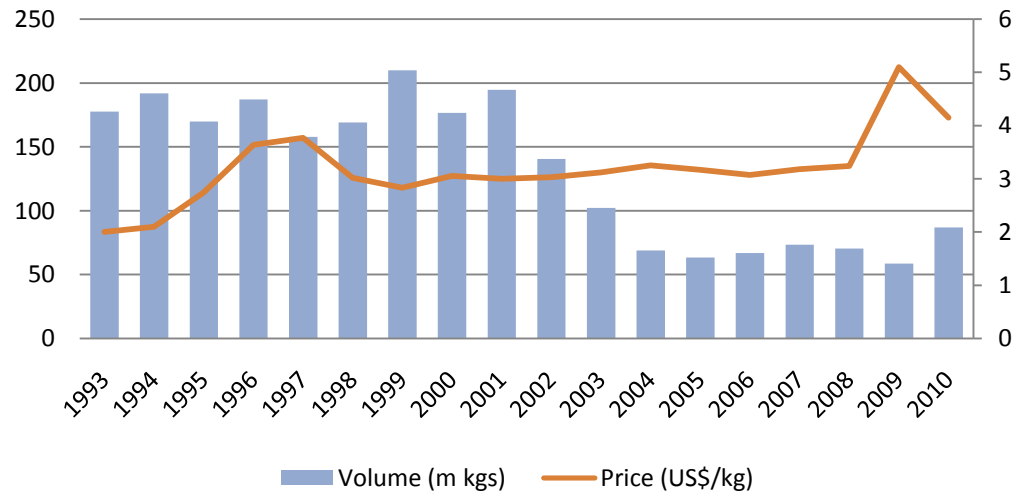
# Output of primary commodities is leading the recovery

- The output of platinum, gold, and tobacco has responded strongly to high international prices.
- Platinum couples both a strong volume performance with high international prices
- After hitting rock bottom in 2008, gold output is growing again but was still one-third of the peak production achieved in 2001.
- The improved profitability has attracted 60,000 small-farmers in the tobacco sector. Tobacco production also remains well below (40% of) the previous peak achieved in 1999.

Volume of Gold Exports  
(Price on the left axis)



Volume of Tobacco Exports  
(Price on the left axis)



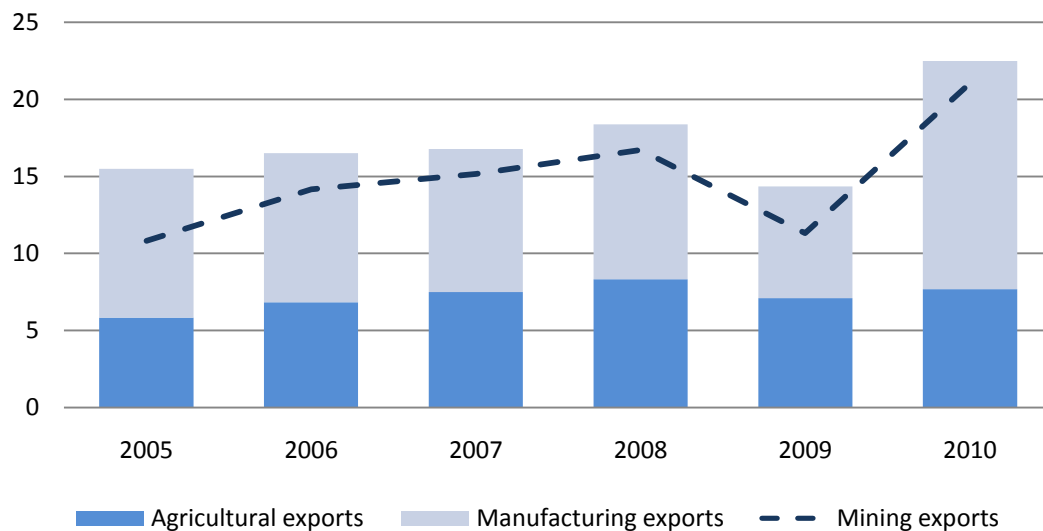
Source: RBZ, staff elaborations

# Mining sector is now the leading export sector

- Mining sector is the leading export sector mainly on the back of growing Platinum exports. It now accounts for 46% of the total exports in 2010. Potentially it could grow further due to diamonds, nickel and platinum.
- High prices have generated a supply response and led to the recovery of exported values, production levels, however, remain well below past peak years (with the exception of platinum).

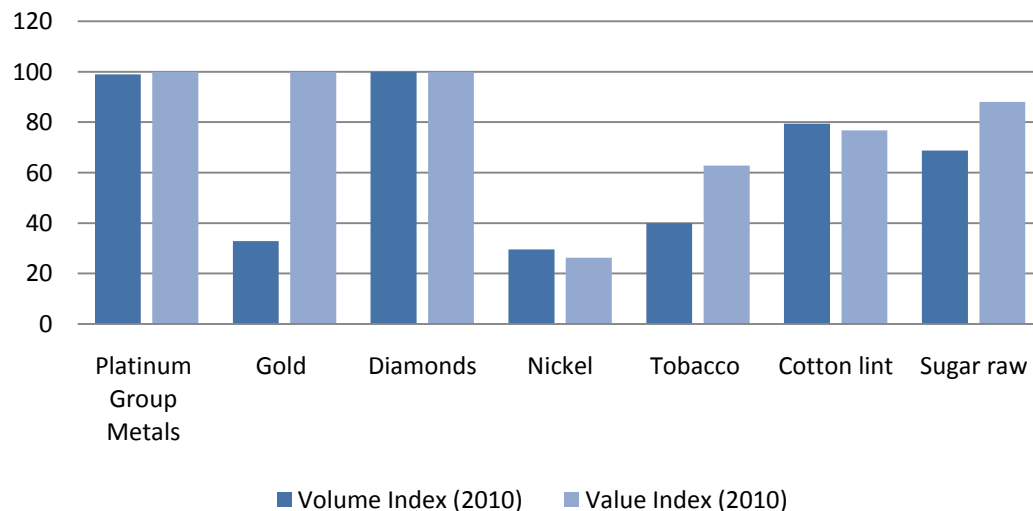
	Production peak year	Values peak year	% of 2010 export value
Platinum Group Metals	2008	2010	20.7
Gold	2001	2010	9.9
Diamonds	2010	2010	10.2
Nickel	1997	2007	1.7
Tobacco	1999	1999	11.3
Cotton lint	2004	2000	3.5
Sugar raw	1997	1994	2.3

Sectoral Exports (as %GDP)



Source: IMF and WB preliminary estimates

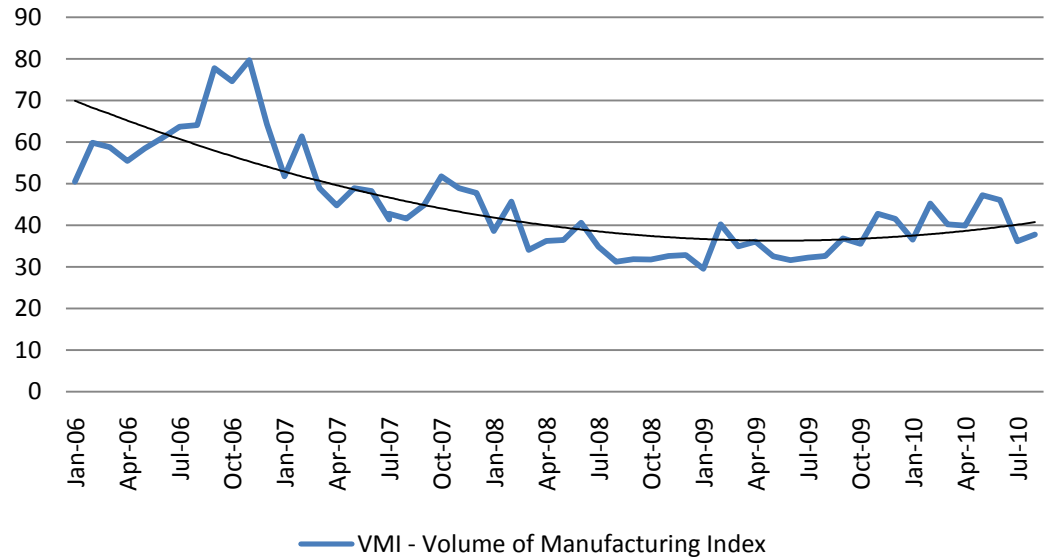
Volume and Value Index (peak year = 100)



# Recovery in the manufacturing sector remains sluggish

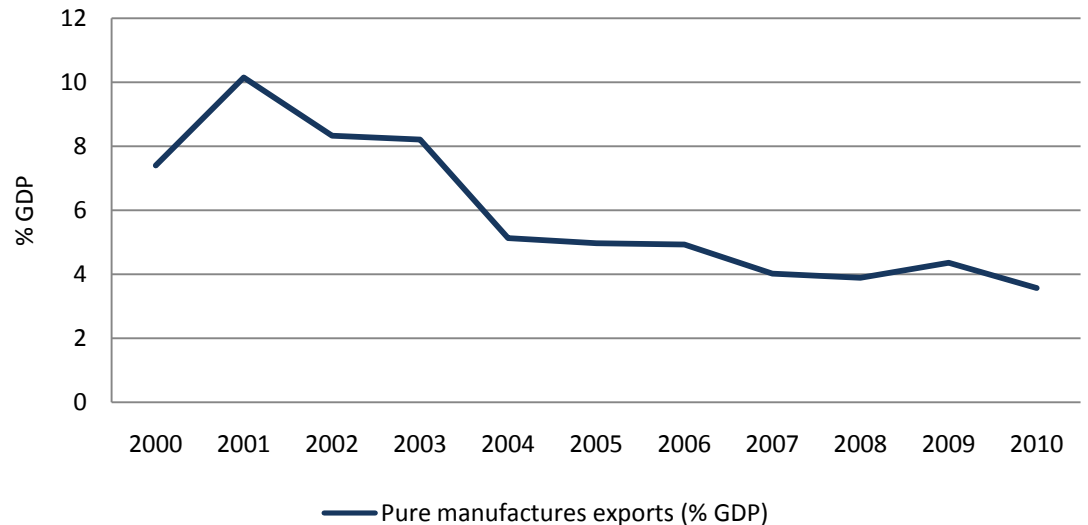
- The volume of manufacturing index indicates a sluggish recovery in the manufacturing sector, reflecting internal constraints. The sector continues to be constrained by unreliable electricity supply, high labor costs, credit rationing and overall tax and regulatory burden, against a background of increased competition from imports. Policy uncertainty regarding indigenization is holding back investment.
- Despite the brisk overall recovery in 2010, the value of exports of pure manufactures as % of GDP has continued a decade-long decline, possibly reflecting increased loss of competitiveness of the manufacturing sector.

Volume of Manufacturing Index



Source: ZIMSTAT

Pure manufactures exports (% GDP)

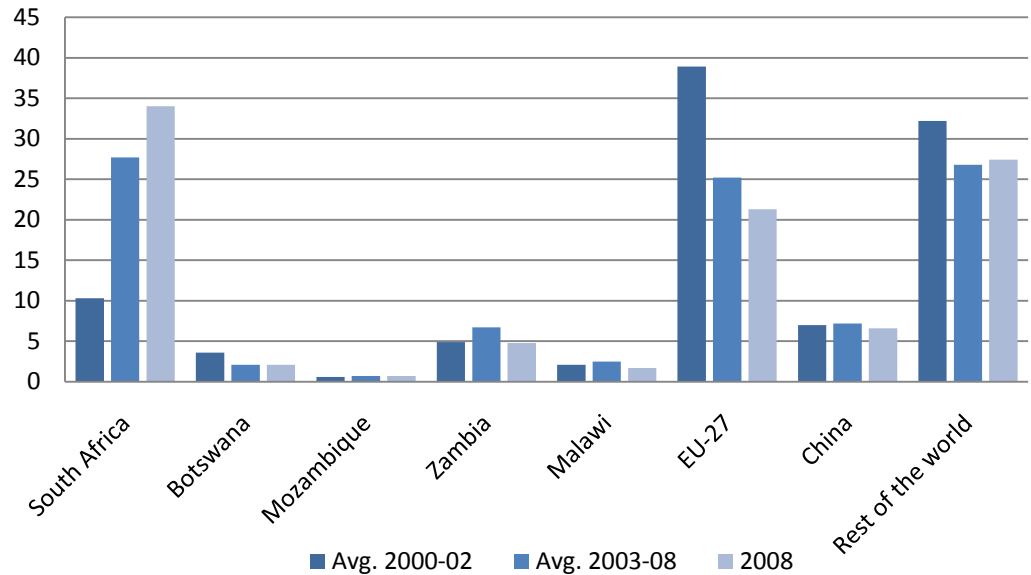


Source: RBZ, Staff elaborations, preliminary estimates

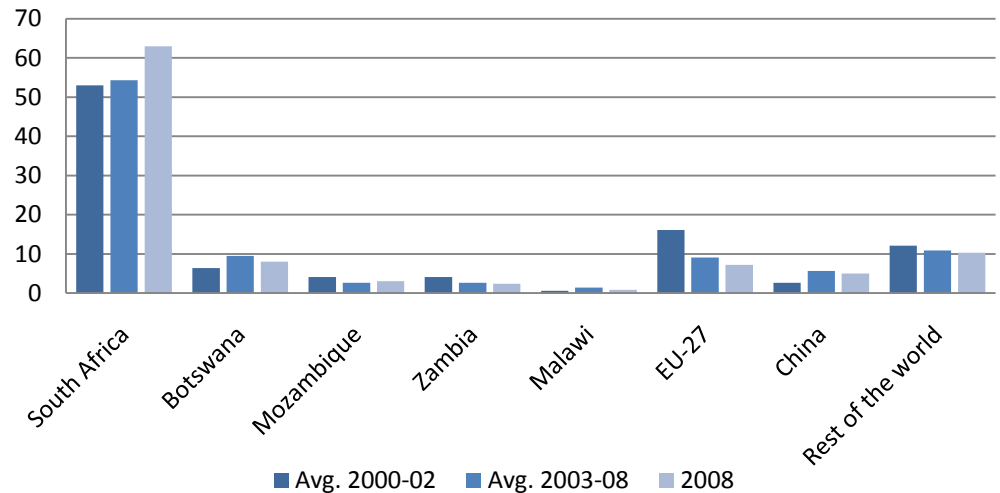
# Zimbabwe's non-commodity trade is largely with neighboring markets

- Exports destination is increasingly directed to neighboring countries, as export to South Africa has increased, and export to the EU has decreased.
- A similar change in the geographical pattern has occurred in Zimbabwe's imports. The decrease in EU imports have been almost fully compensated by the increase in South Africa's share in imports.
- About 70% of imports originates in neighboring countries. Among the other major exporters to Zimbabwe, only China has succeeded in increasing its presence in Zimbabwe's market.

Share of Exports by Destination (in percent)



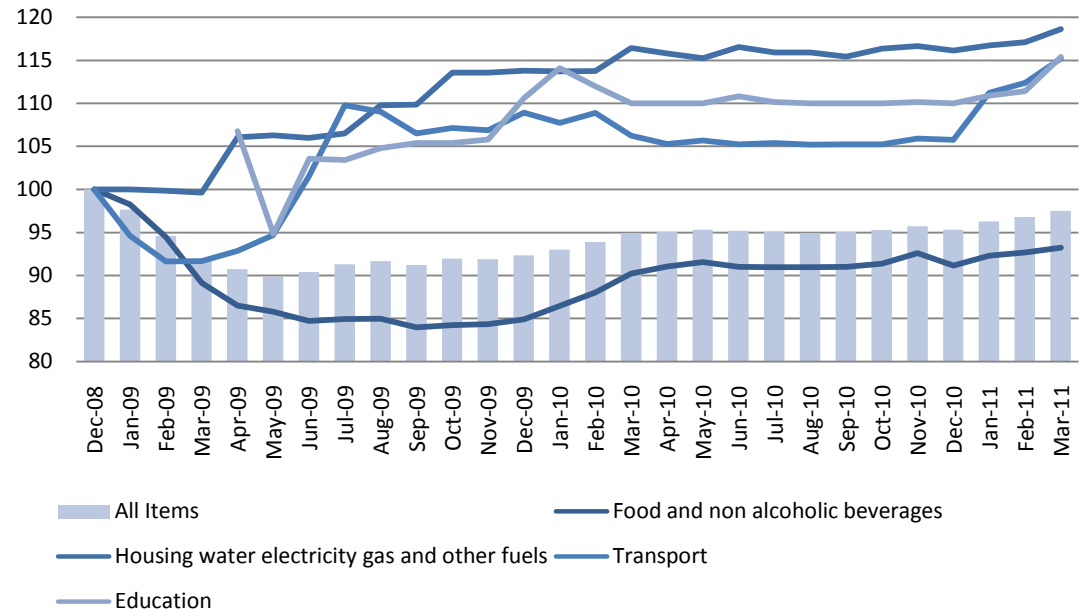
Share of Imports by Origin (in percent)



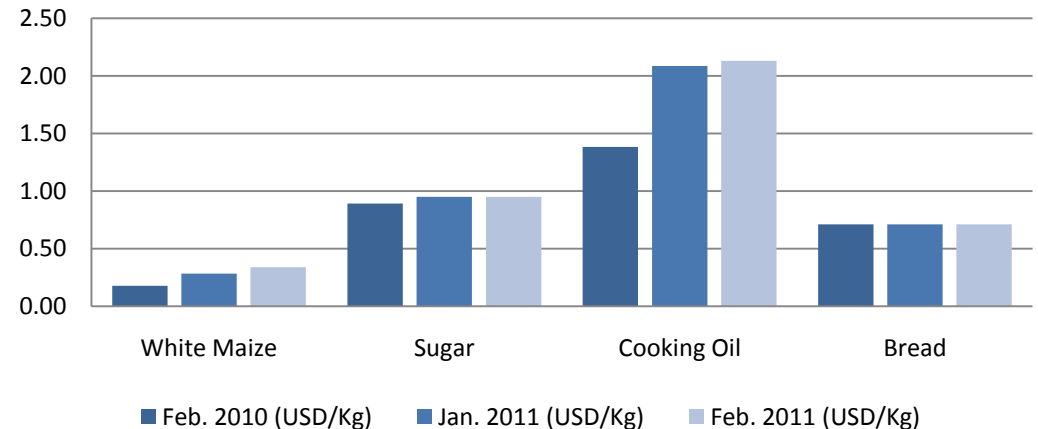
## CPI has stabilized but cost of essential items including food is on an increasing trend

- In 2010 CPI showed a modest increase of 3.2%
- Price of essential services such as housing, water, and power is on an increasing trend.
- Food items increased by 6.8% in 2010. In the capital, the price of maize leveled off during February 2011 with a positive outlook for 2011 crop and the start of the green maize harvest

Consumer Price Index (Dec. 2008=100)

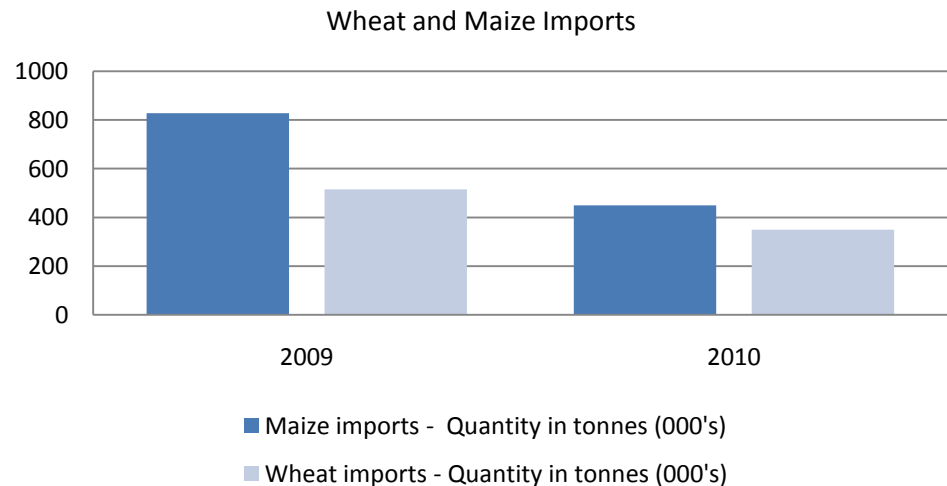
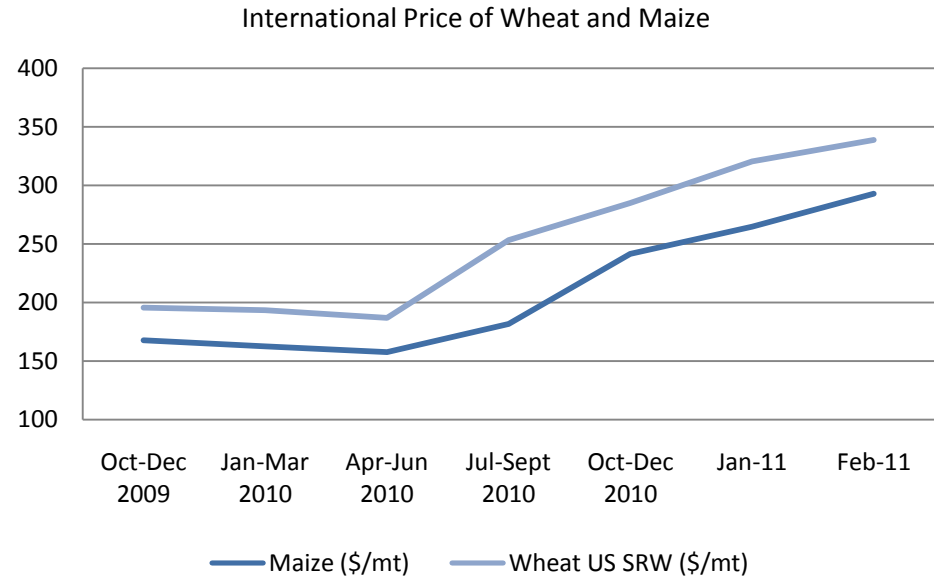


Harare - Survey of Selected food items



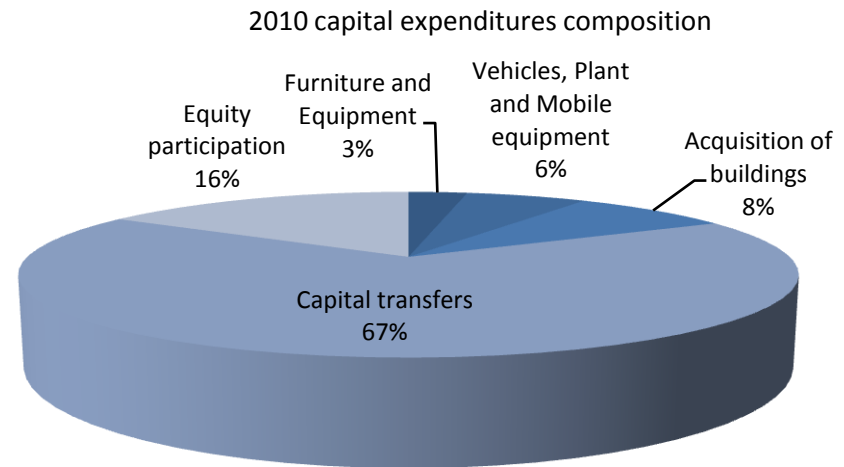
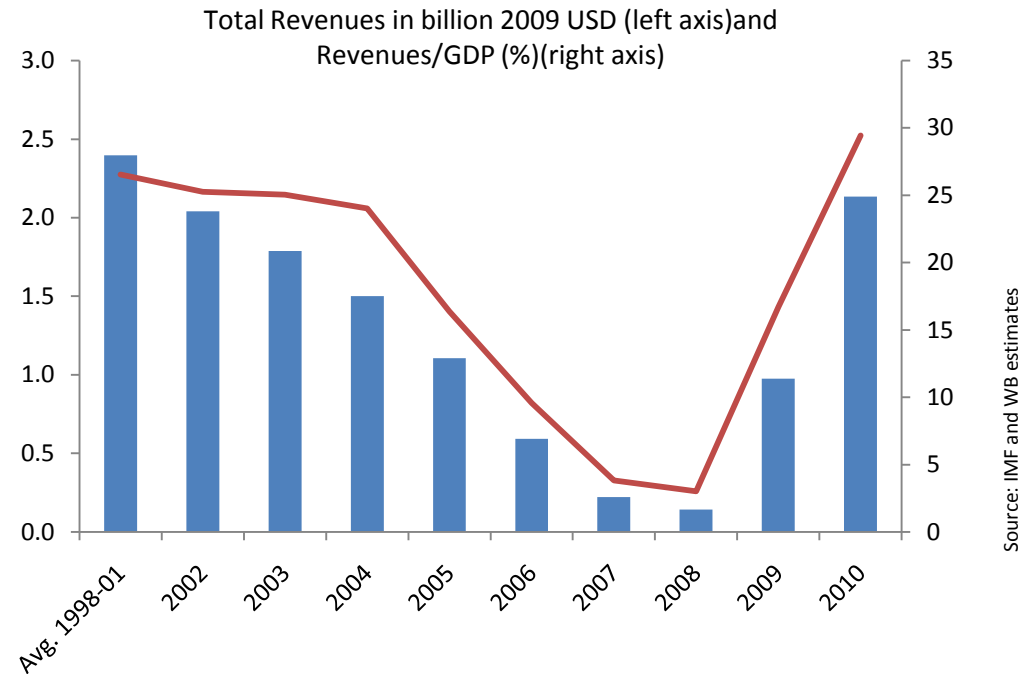
## Close up - Food prices

- While international prices of wheat and maize have increased by about 75% since the last quarter of 2009, effect on Zimbabwe was mitigated by decreased reliance on imported grains and lower regional prices (South Africa).
- In 2010 increased domestic production allowed to reduce imported quantities of maize by 45% and imported quantities of wheat by 32%.



## The surprising rebound in revenues is not being put to good enough use

- Revenues have quickly climbed to 29.4 percent of GDP – slightly higher than the 1998-01 average level -- in the past two years (USD2.8 billion collected in 2010). The climb reflects both economic recovery, and improved tax policy and administration.
- A temporary fiscal space has opened up since recurrent expenditures could not be scaled up at the same pace as revenues grew. This has allowed the government to program a capital expenditure budget of about USD 0.8 billion in 2010-2011. There are concerns about the growth effectiveness of planned capital expenditures and implementation is weak.
- Wage pressures are high. Wage bill is estimated to have reached 14% of GDP and 31% of revenues at the end of 2010. A payroll audit has identified about 14,000 employees who could not be identified during the audit (“ghost workers”).



## A precarious external position over-reliant on short-term capital flows

- The current account deficit is very sizeable (23.2% of GDP at the end of 2010) and partly a legacy of hyperinflationary period when domestic production was severely hit and replaced by imports. In the wake of growing exports the current account deficit is expected to decline in the next years.

- Remittances have been buoyant, reaching in 2010 an estimated size of 7-9% of GDP.

- Long-term capital inflows remain subdued, with a moderate recovery in the flow to the private sector.

Export and imports of goods in million USD (left axis) and trade balance as percent of GDP (right axis)



Capital Flows	2008	2009	2010
Direct Investment	1.0%	1.8%	1.6%
Portfolio Investment	0.0%	0.0%	0.0%
Long Term capital (private sector)	-0.1%	0.0%	3.5%
Short-Term Capital	4.3%	4.1%	4.9%

Source: IMF and WB estimates

## Intermediation has returned quickly to the banking sector but substantial vulnerabilities persist

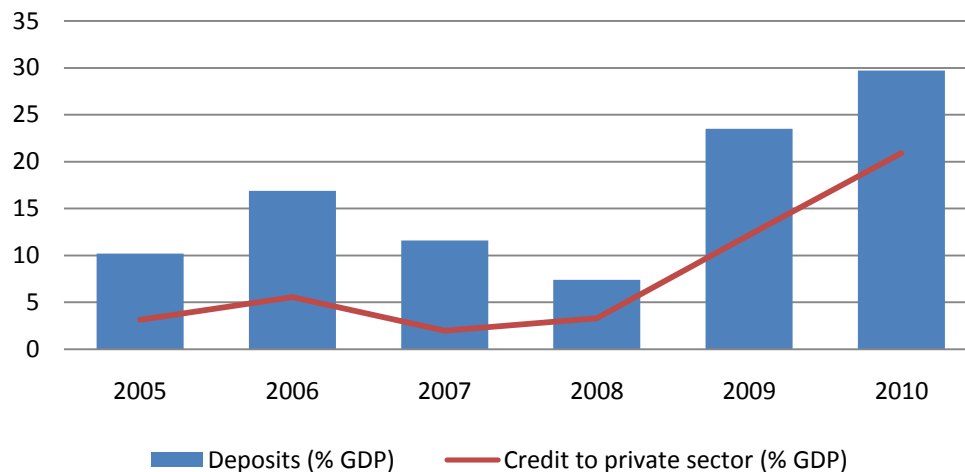
- Dollar deposits in the banking system grew from 315 million at the end of 2008 to 2222 million at the end of 2010 (700 % growth).

- Almost all deposits are of short duration, and are the main source of funds for the banks. Loan to deposits ratio reached 75% at the end of 2010. Loans themselves are largely for short duration.

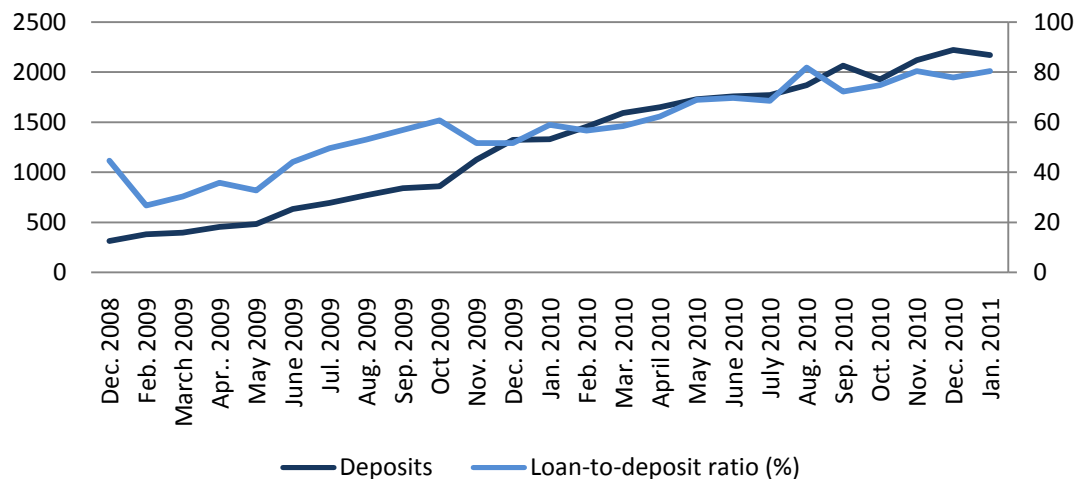
- Prudential concerns about liquidity remain heightened in the absence of a lender of last resort and limited interbank activity. The RBZ enforces a statutory liquid assets ratio of 20%.

- The level of Non Performing Loans is relatively small (3.1% at the end of 2010) but banks have sizable exposure to the RBZ. Credit risk is rising in smaller banks that also have capital shortfalls.

Deposits and credit to private sector (% GDP)



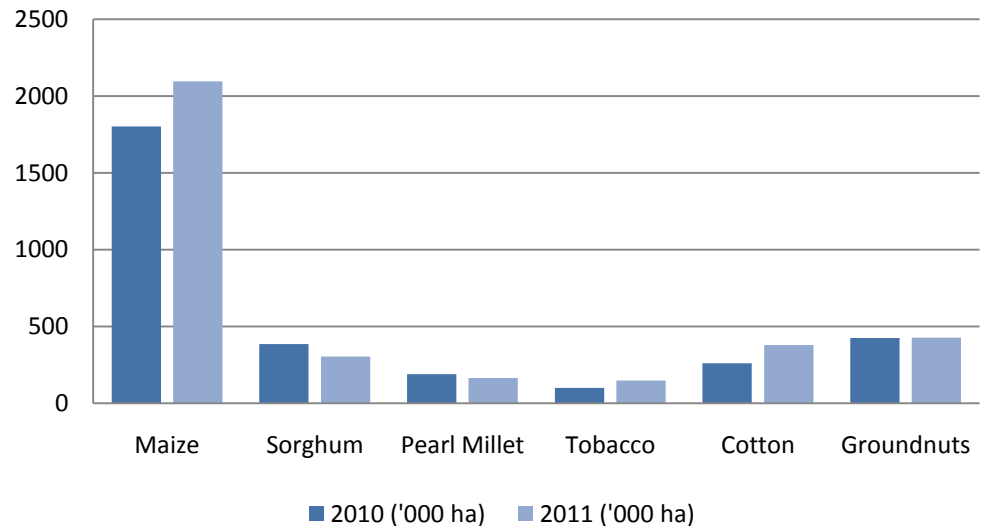
Deposits (right axis) and Loan-to-deposits ratio (left axis) Monthly data



# 2011 Outlook / 1

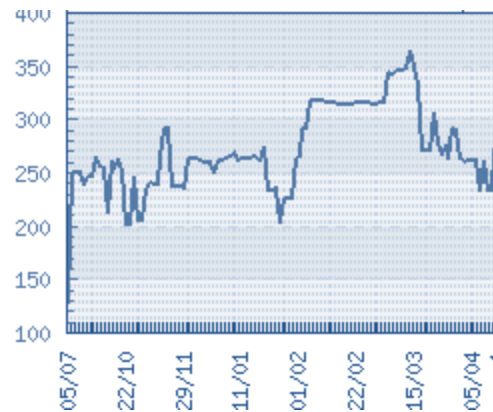
- Agricultural season:** 2010-11 season presented an uneven below normal rainfall with long dry spell in the southern parts. Increased maize hectareage, but reduced small grain area are expected to support a slightly higher production than last year, with localized cereal shortages. FAO scenarios for maize indicate a production between 1,200 and 1,700 m MT (depending on effective average yields – which is forecasted to be lay between 0.6-0.8 MT/Ha).
- ZSE:** Both the Industrial and Mining Index have registered strong performances in the last year on the back of the recovery. Heightened political uncertainty is reflected in the weaker performance in March 2011.

Areas Planted to Crops

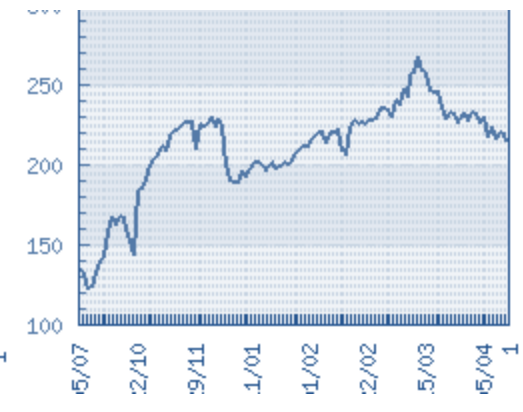


Source: MoF estimates

ZSE Industrial Index – Past 9 months



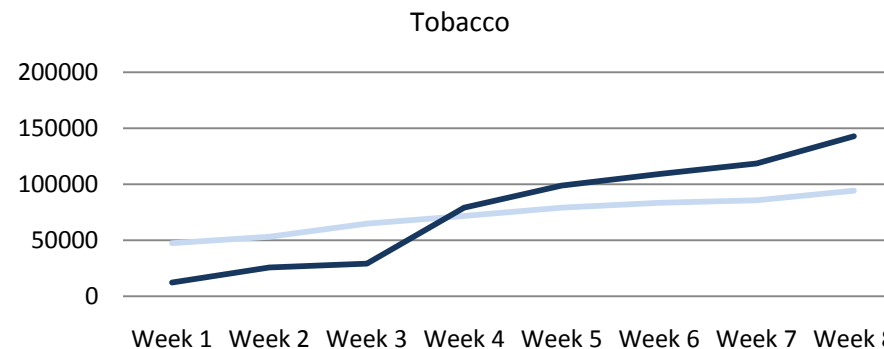
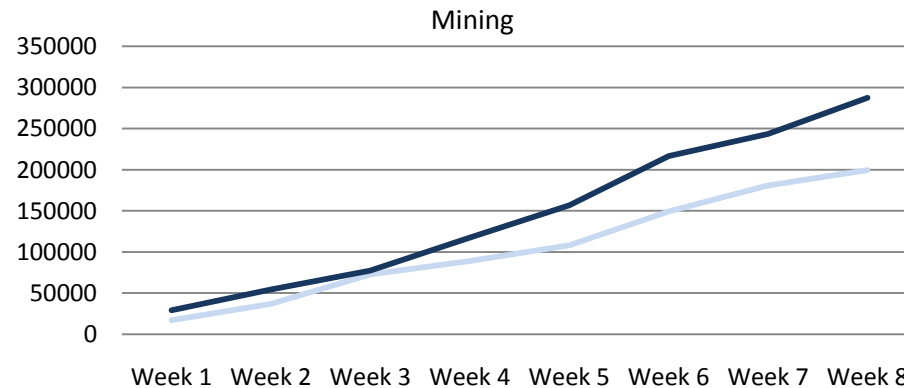
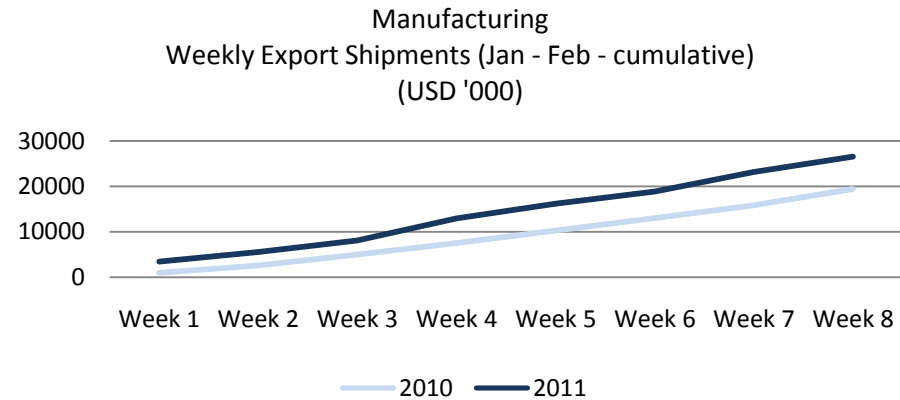
ZSE Mining Index – Past 9 months



Source: ZSE

# 2011 Outlook / 2

- **Exports:** Confirming the strong 2010 growth trend, weekly export shipments for the first two months on 2011 indicate a 45% increase in exported volumes comparing to the same period in 2010. The trend is support by the expectation of **International prices** remain high throughout 2011.
- **Mining sector:** January and February 2011 data indicates a further strengthening of the sector's growth. Production of nickel is expected to start recover in 2011 as BNC will resume operations. However, application of the March 25, 2011 legislation of indigenization of mining sector is expected to affect investment.



Source: CEPES