2016 ECONOMIC OUTLOOK

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THE RAINBOW TOWERS HOTEL

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Since independence in 1980, Zimbabwe has implemented no less than 15 economic blueprints:

- Growth with Equity (1981);
- Transitional National Development Plan (1982-1985);
- First Five Year National Development Plan (1986-1990);
- Economic Structural Adjustment Programme (ESAP) (1991-1996);
- ZIMPREST (1996-2000);
- Millennium Economic Recovery Programme (MERP) , 2001-02;
- Ten Point Plan based on Agriculture (2002);
- National Economic Revival Programme (NERP) (2003);
- Macroeconomic Policy Framework (2005-2006);
- National Economic Development Priority Programme (NEDPP) (2007);
- Zimbabwe Economic Development Strategy (ZEDS) (2008)(aborted at Conception);
- Short Term Economic Recovery Programme (STERP I) (2009-10);
- Short Term Economic Recovery Programme (STERP II) (2010-12);
- Medium Term Plan (2011-15);
- ZimAsset, 2013-2018;
- Ten-Point Plan of August 2015.

Faltering Economic Rebound

- Cumulative economic decline of at least 51% during 1999-2008: (48% between 2000 and 2008), Zimbabwe declined from the 2nd largest economy in SADC to 11th.

- The adoption of a multi-currency regime and cash budgeting, and discontinuation of quasi-fiscal operations of the RBZ in 2009 killed off hyperinflation and helped restore price stability;

- Having averaged 10% during the period 2009-2012, growth declined to an estimated 4.5% in 2013, 3.8% in 2014, a projected 1.5% in 2015, reflecting the liquidity shortages in the economy, low domestic savings, investment inflows, power supply shortages and drought; against ZimAsset targets of 6.1% in 2014 and 6.4% in 2015.

- Economic rebound since 2009 was anchored by mining and agriculture, with mining emerging as the most dynamic sector, replacing the role of agriculture in the pre-crisis Zimbabwe.

Declining Growth

- Projected modest growth of 1.5% in 2015, driven by tourism, construction and communication, with some setbacks in agriculture and mining.

- GDP growth is projected to rebound to 2.7% in 2016, driven by mining, tourism, construction and the financial sector.

- Agriculture to grow by 1.8%, ‘though adequate planning on mitigating the impact of the El-Nino weather will be essential.’

- The 2016 Budget based on assumption of successful resolution of Zimbabwe’s external payment arrears, significant reduction in the perceived country risk premium that made credit lines to Zimbabwe unaffordable; and the country being able to access credit lines at competitive rates – improved liquidity conditions.

- The general price level remains low, with year on year inflation at -1.3% in January 2015, reaching -3.3% by October 2015, before accelerating slightly to -2.5% in December 2015 reflecting weak aggregate demand, tight liquidity and the depreciation of the rand against the United States dollar. Annual headline inflation averaged -2.4% for the period January to November 2015.

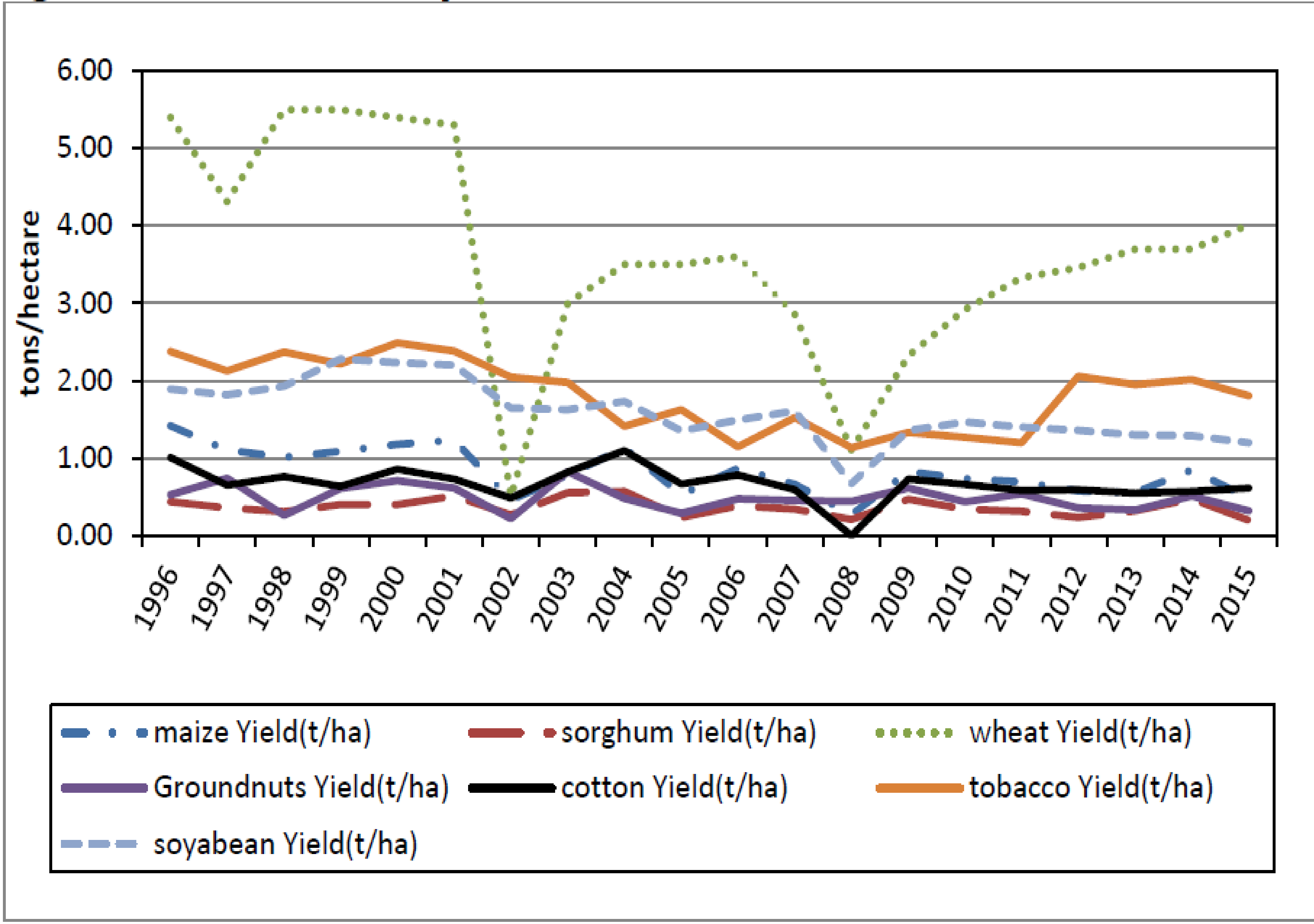
- Experience suggests that it is difficult to get out of a deflation.

Real GDP Growth (%)

	2012	2013	2014	2015	2016
	Act	Act	Est.	Est	Proj
Agriculture, hunting and fishing	7.8	-2.6	23	-3.6	1.8
Mining and quarrying	8	11.7	-3.4	-2.5	1.6
Manufacturing	5.3	-0.6	-5.1	1.6	2.1
Electricity and water	0.3	5	5.4	-10.8	3.6
Construction	23.5	3.9	6.9	7	4.5
Finance and insurance	28	11.3	7.7	6	5
Real estate	59	0.7	4.7	3.9	2.5
Distribution, hotels and restaurants	4.3	3.9	2.5	4.7	4
Transport and communication	6.7	7	1.1	4.2	2.8
Public administration	19.1	3.4	6.3	1.5	1.3
Education	38.1	2.9	3.9	2.1	1.3
Health	7.7	0.5	1.8	2.1	2.1
Domestic services	-3.5	6	2.2	2	1.8
Other services	-10.7	-4.7	-3.3	3	2.5
Less Imputed bank service charges	9.8	11.3	4.7	3.7	5
GDP at market prices	10.6	4.5	3.8	1.5	2.7

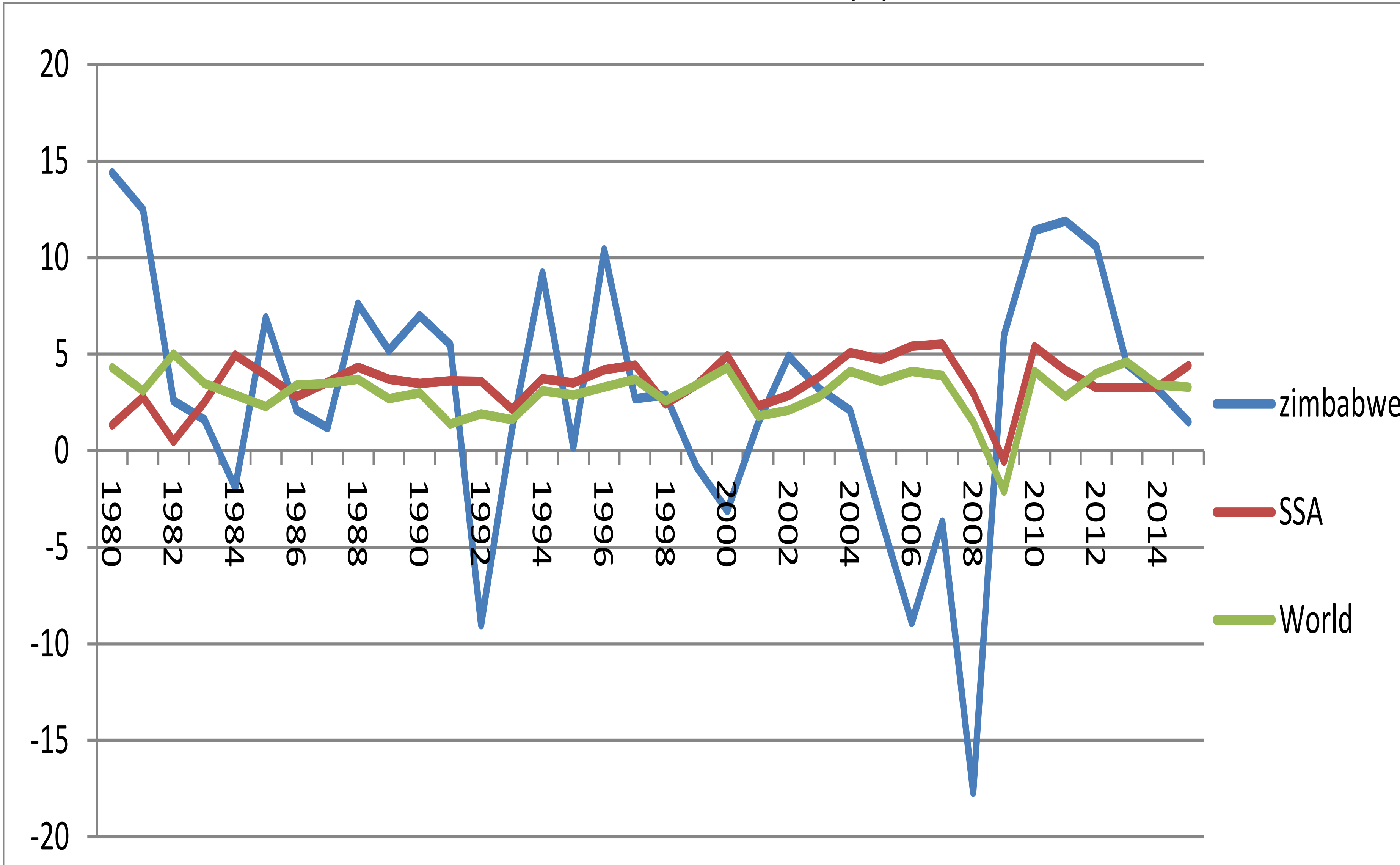
Source: Ministry of Finance

Agriculture Productivity



Source: Ministry of Agriculture

GDP Growth Trends – Zimbabwe, SSA and World, 1980-2015 (%)



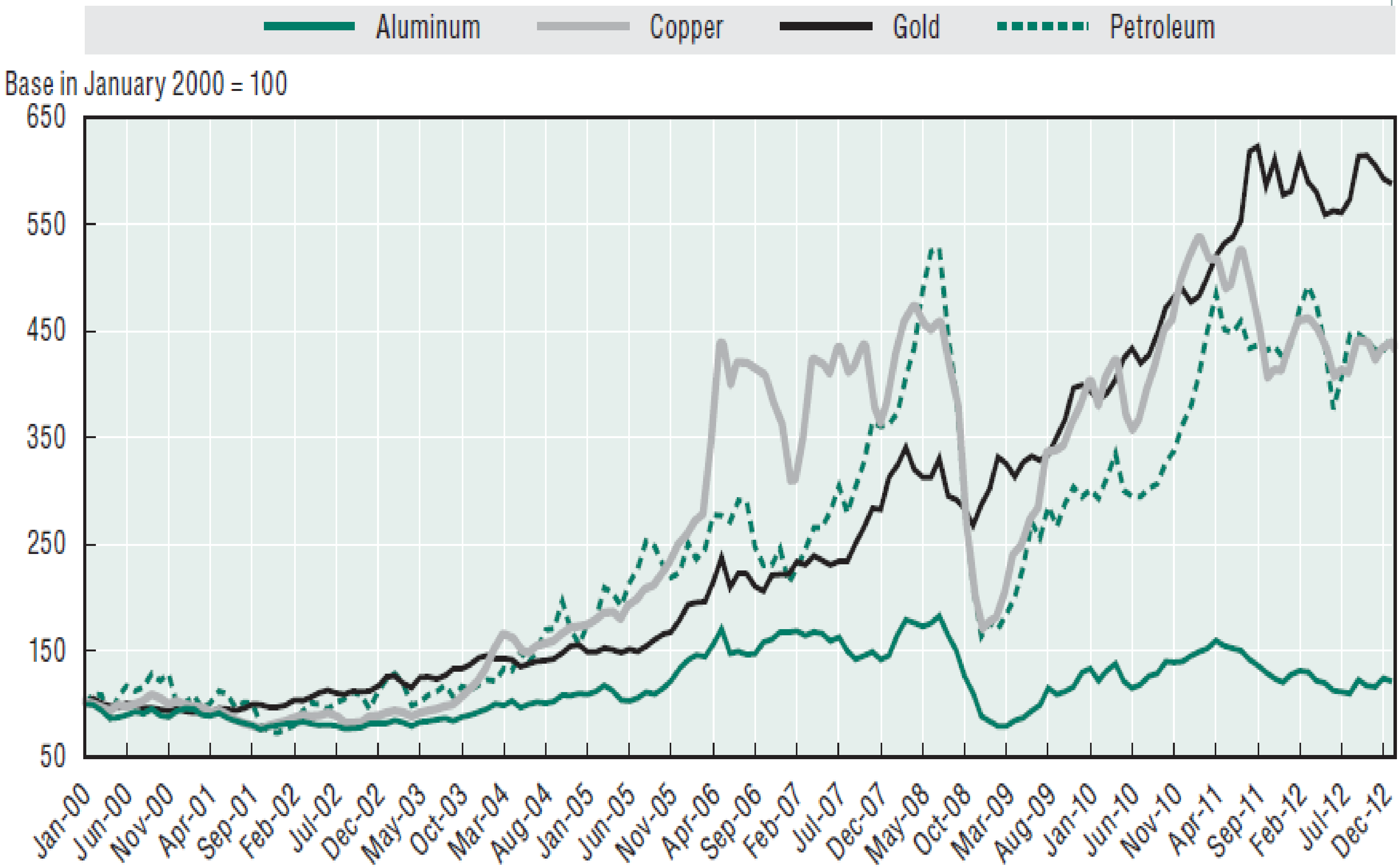
Source: Derived from World Bank data.

Global Economic Developments and Outlook (%)

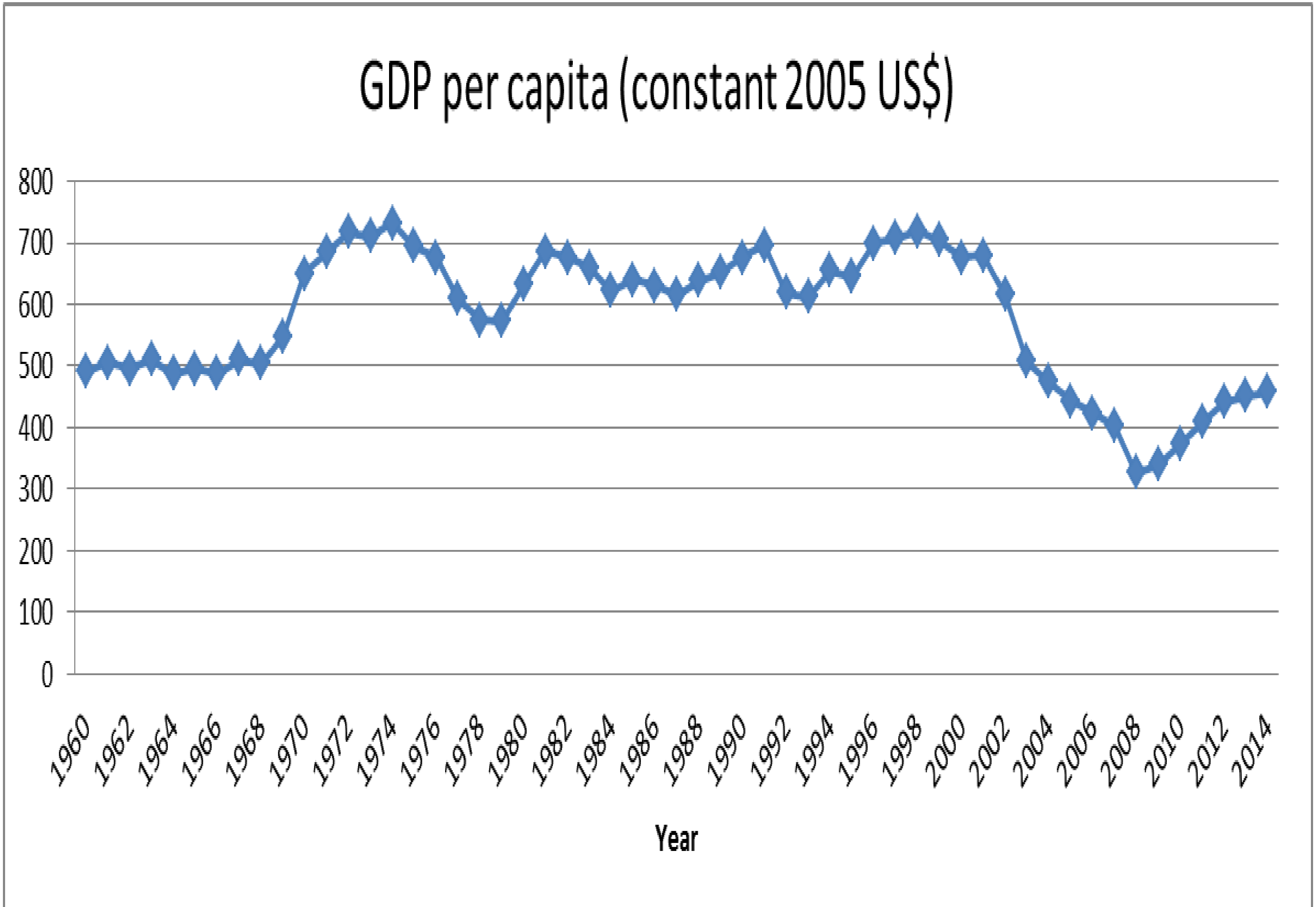
	2013	2014	2015 (Estimate)	2016 (Projection)
World Output	**3.3**	**3.4**	**3.1**	**3.6**
Advanced Economies	1.1	1.8	2.0	2.2
US	1.5	2.4	2.6	2.8
Japan	1.6	-0.1	0.6	1.0
Emerging Market & Developing Economies	**5.0**	**4.6**	**4.0**	**4.5**
China	7.7	7.3	6.8	6.3
India	6.9	7.3	7.3	7.5
Sub-Saharan Africa	**5.2**	**5.0**	**3.8**	**4.3**
Zimbabwe	4.5	3.8	1.5	2.7
Latin America & the Caribbean	**2.9**	**1.3**	**-0.3**	**-0.8**

Despite some easing, commodity prices remain favourable for resource-rich countries

Commodity prices (indices, base January 2000 = 100)

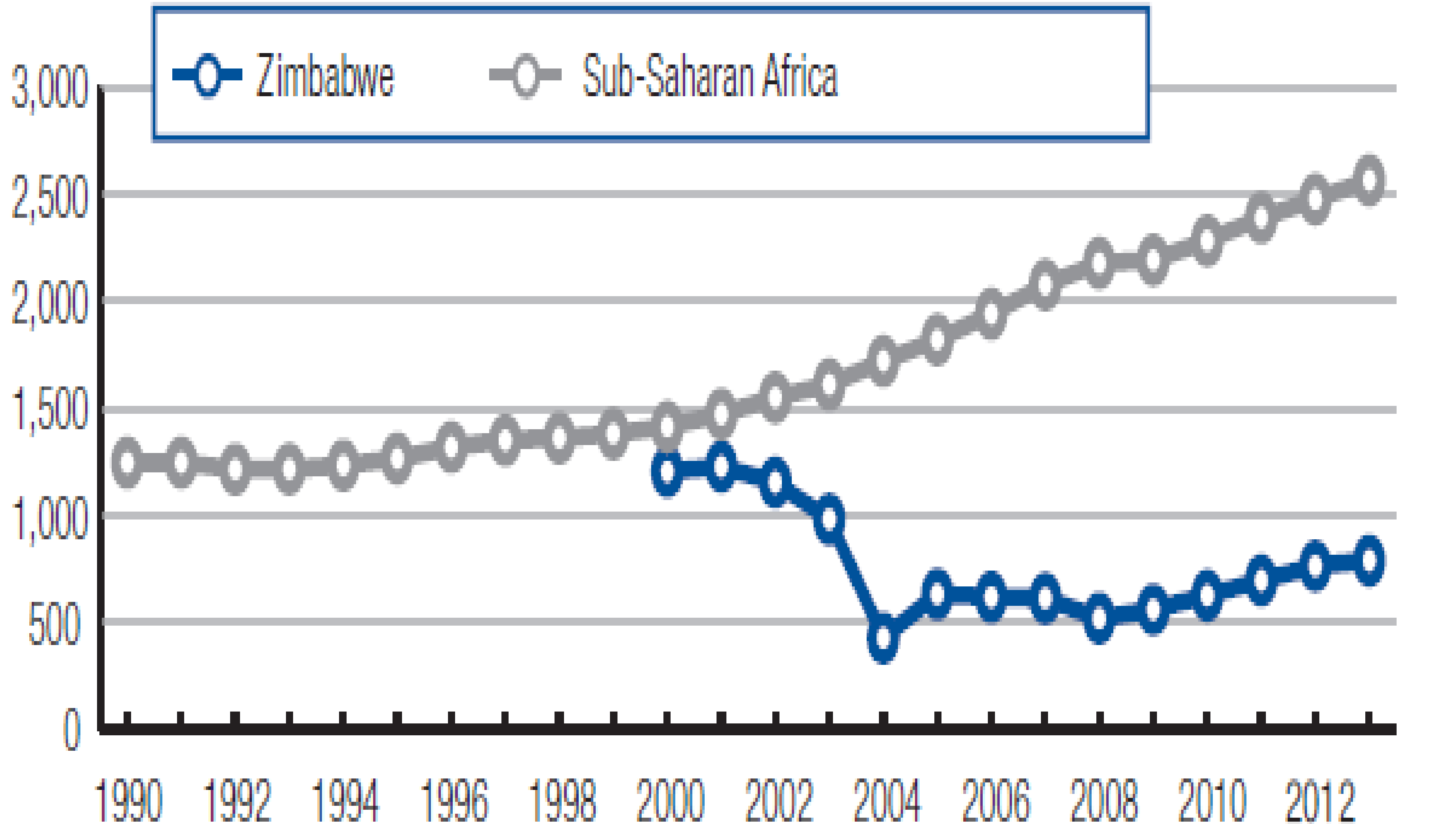


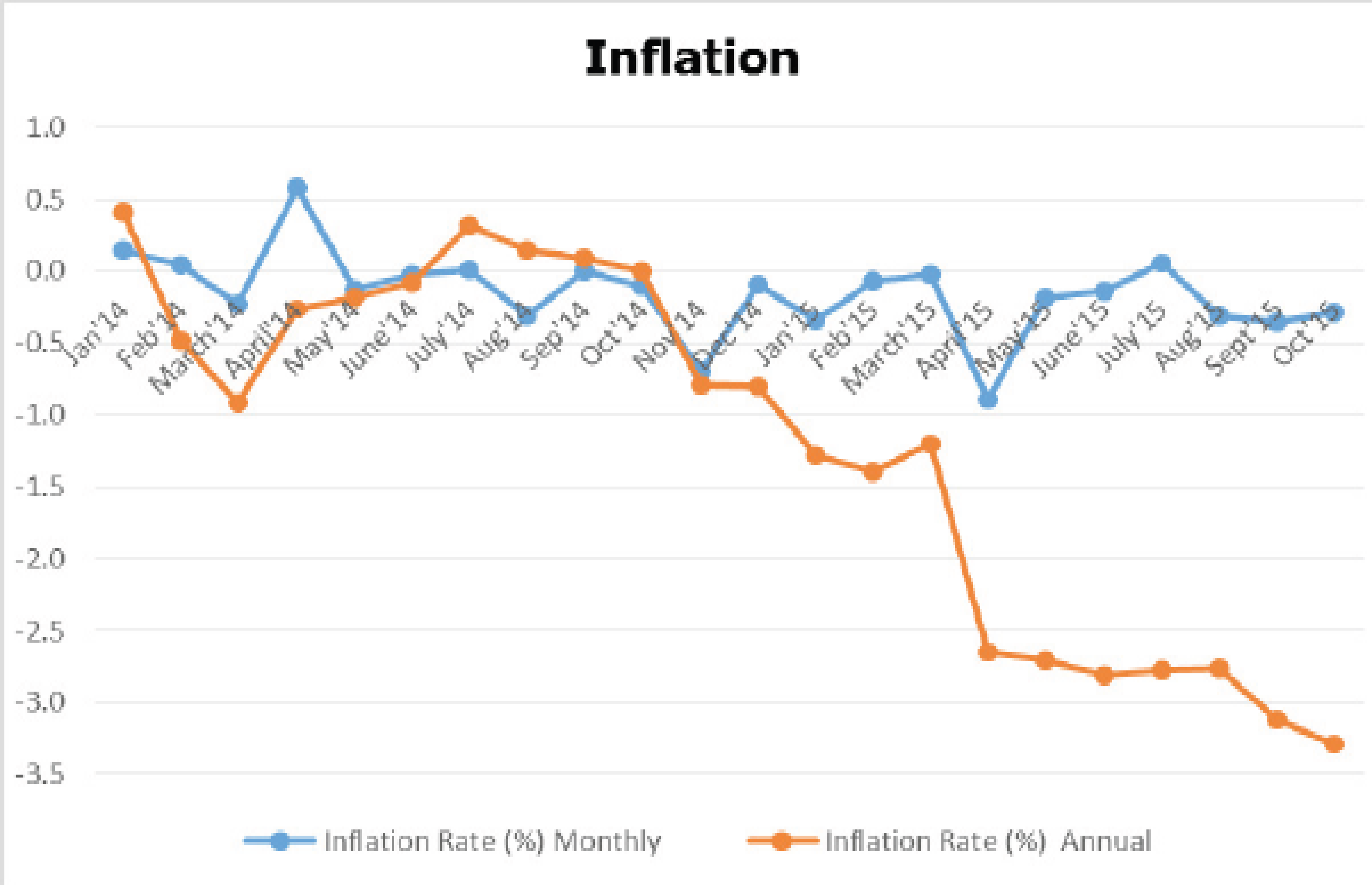
Source: World Bank.



GDP per capita (constant 2005 US$)
800
700
600
500
400
300
200
100
0
1960
1962
1964
1966
1968
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
2012
2014
Year

GDP (PPP) per capita (int'l $), 1990–2013



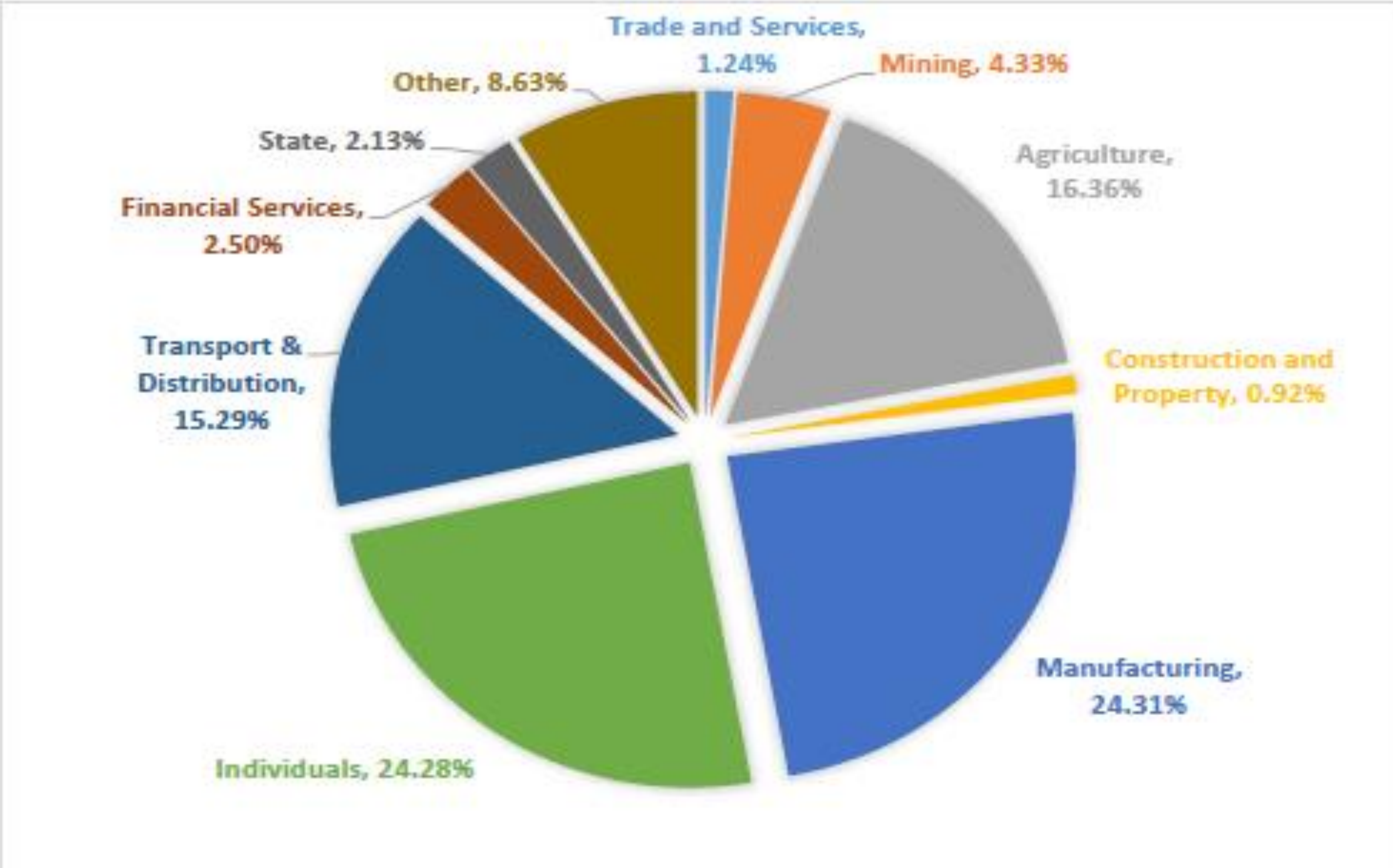


Source: ZIMSTAT

Regional Comparison of PDL per Individual (US$)

Country	PDL
Botswana	53.44
Malawi	80.21
Namibia[1]	41
South Africa	52.40
Zimbabwe	100.58

Sectoral Distribution of Credit as at 31 December 2015



Non-Performing Loans as at 31 December 2015

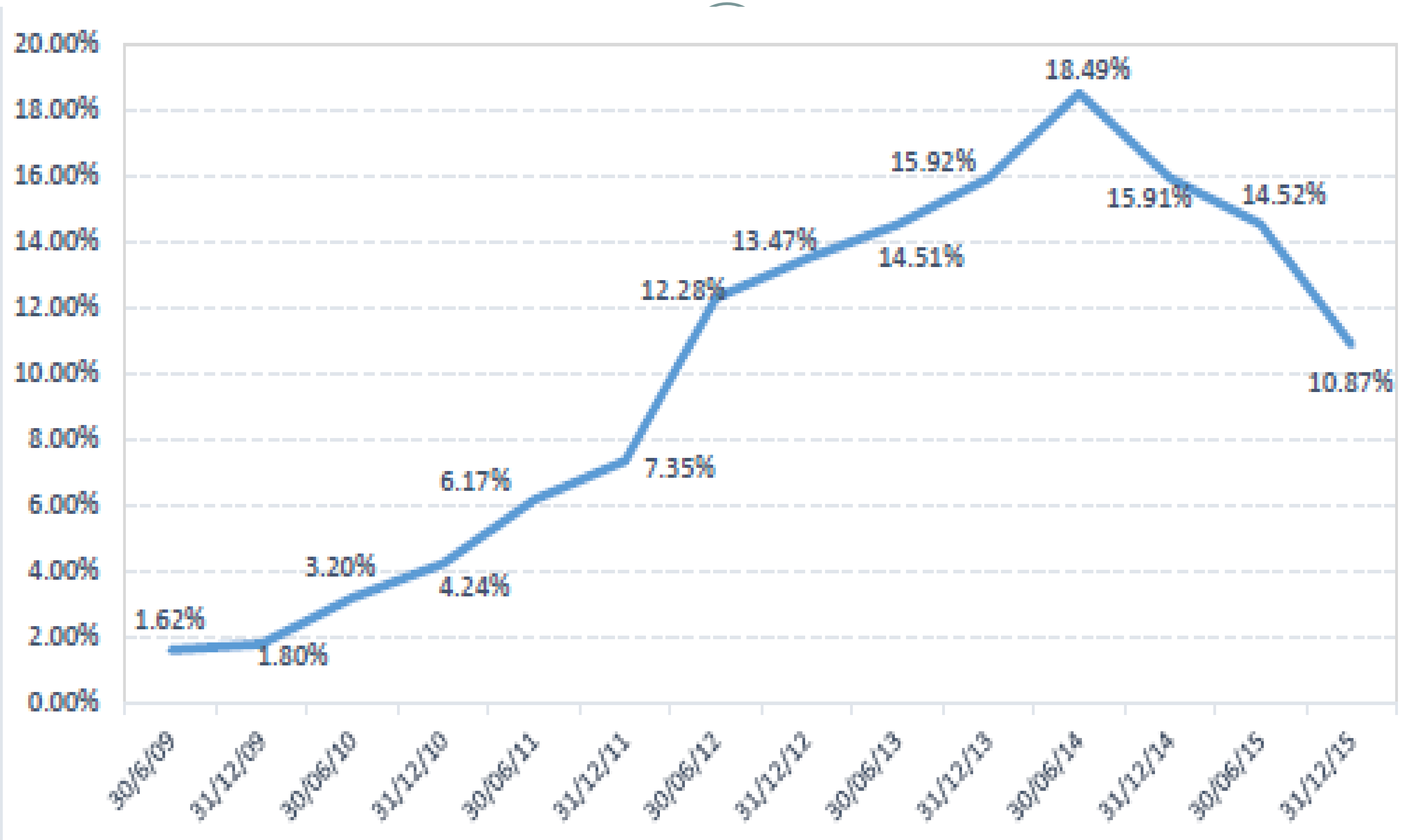


Figure 3 : Zimbabwe Stock Exchange Indices

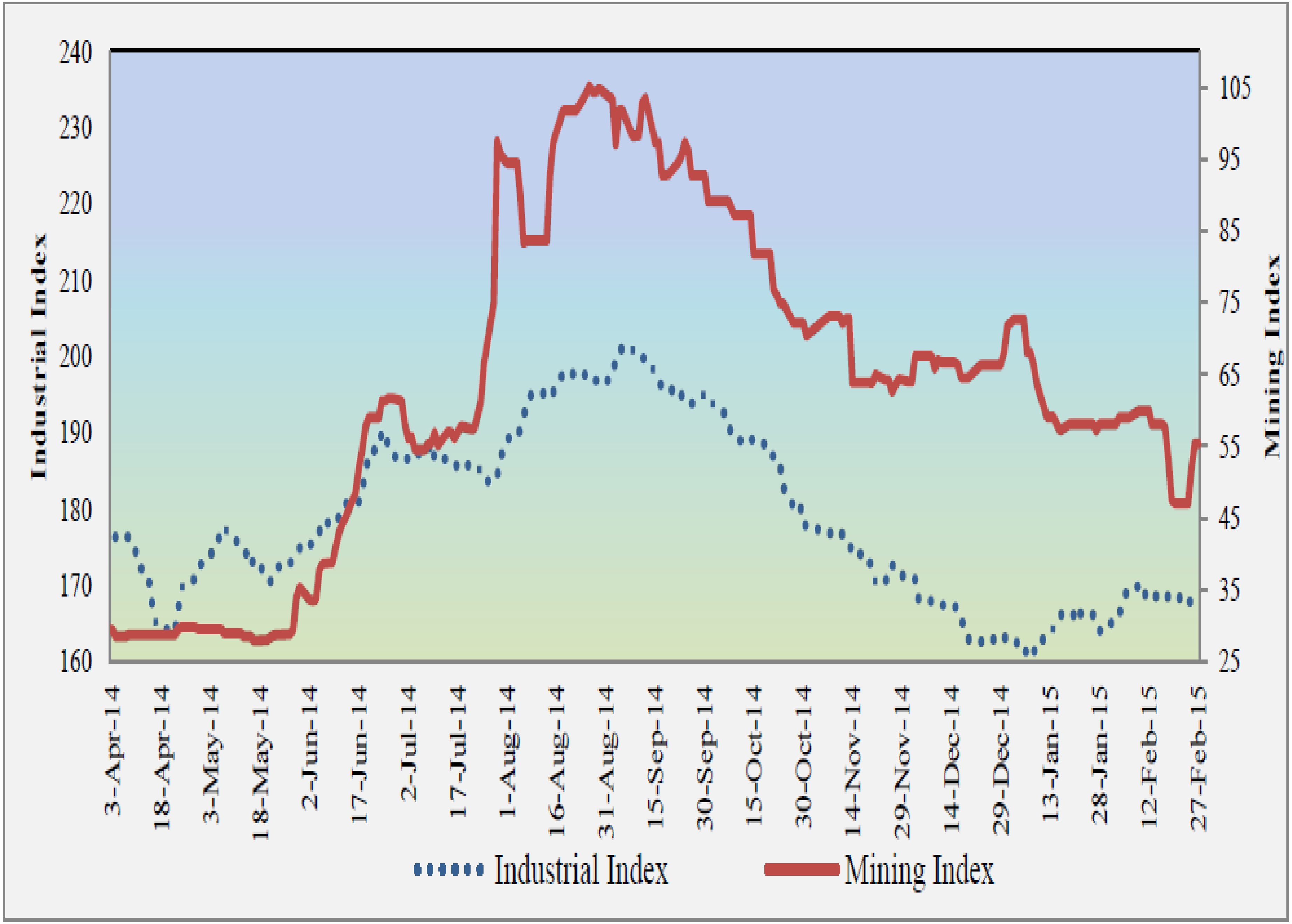
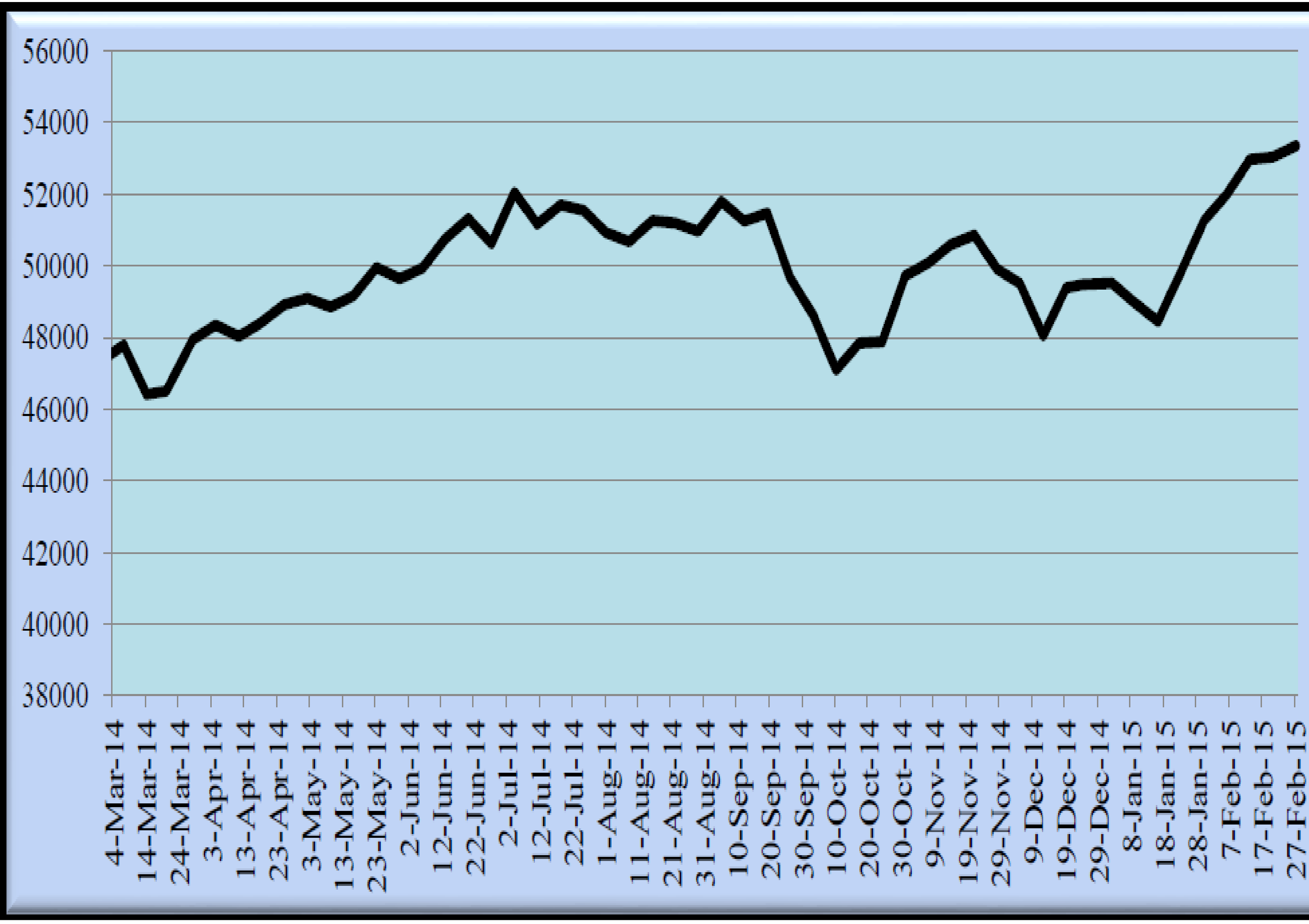
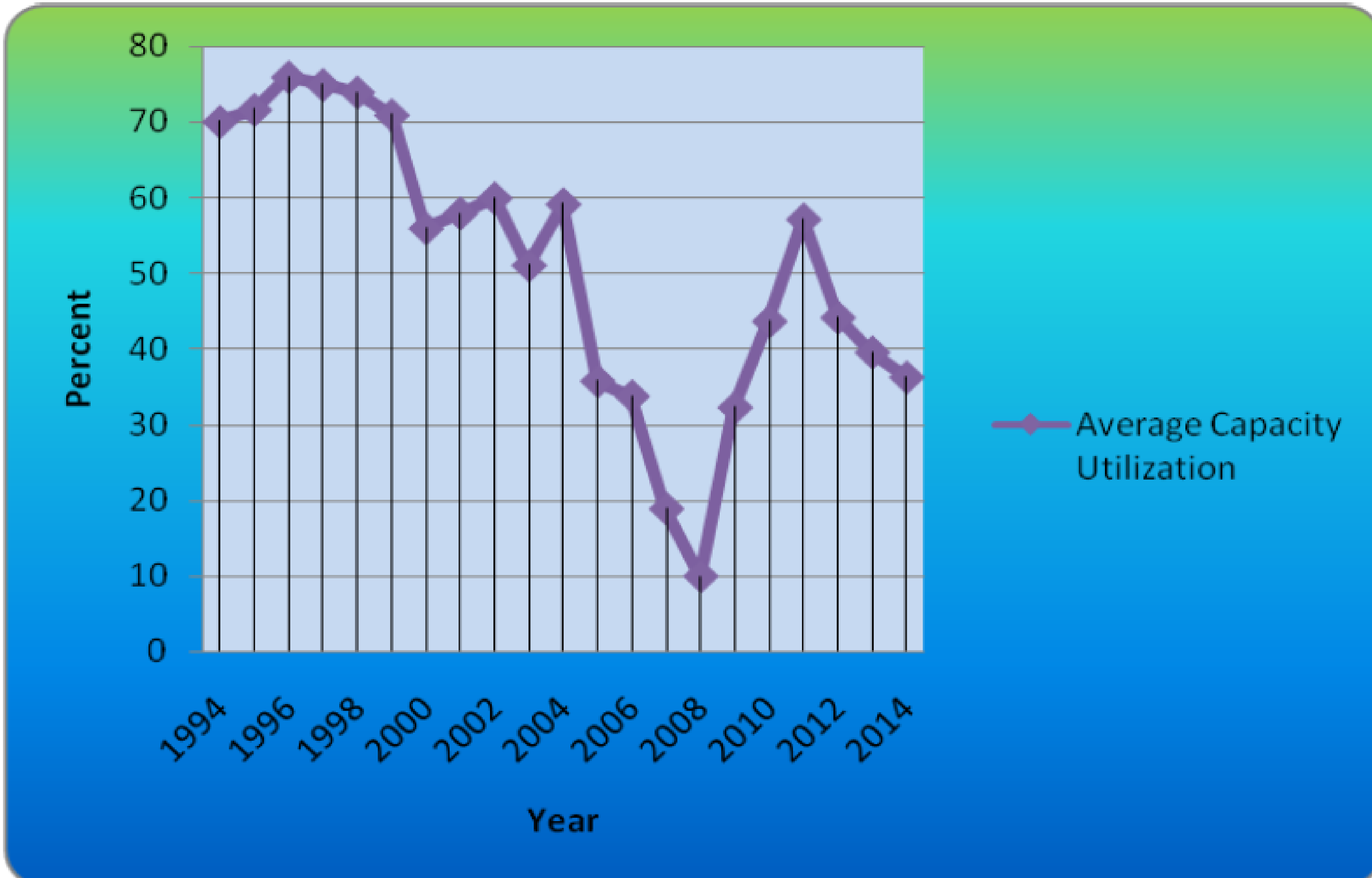


Figure 6: Johannesburg Stock Exchange (JSE) All Share Index



The trends in capacity over the past 20 years are provided below:



2015 Major Capacity Constraints Percentage	
Low local Demand	28.4
Capital Constraints	18.6
Antiquated Machinery and machine breakdowns	12.3
Competition from Imports	10.3
High cost of doing business	8.3
Cost/Shortage of raw materials	6.9
Power and water shortages	6.4
Drawbacks from current economic environment	2.0
Other	6.9

Gross Domestic Product by Industry at Current Prices - Percentage Distribution

Industry/ Year	2009	2010	2011	2012	2013	2014
Agiculture, Hunting and Fishing and forestry	12.7	12.3	11.2	11.1	10.1	12.0
Mining and Quarrying	6.9	8.5	9.2	8.6	8.8	8.1
Manufacturing	13.1	11.8	11.8	11.5	10.8	10.2
Electricity and water	3.4	3.8	4.0	3.6	3.6	3.8
Construction	1.7	1.9	2.6	3.0	3.0	3.0
Finance and Insurance	7.0	6.6	6.4	7.6	8.0	8.1
Real Estate	1.4	1.3	1.8	2.4	2.5	2.7
Distribution, Hotels, and Restaurants	14.8	14.6	12.8	12.9	14.2	13.6
Transport and communication	13.2	12.1	12.1	10.8	10.2	10.4
Public administration	2.3	3.1	2.9	3.1	3.0	3.1
Education	2.6	3.2	4.7	5.7	6.5	7.2
Health	1.1	1.1	1.0	1.0	0.9	0.9
Domestic Services	0.4	0.4	0.4	0.3	0.3	0.3
Other Services	4.2	4.1	4.1	3.4	3.0	2.8
Less Fin.Int Services Indirectly Measured	-0.3	-0.4	-0.5	-0.5	-0.6	-0.6
GDP at factor cost	**84.5**	**84.5**	**84.5**	**84.5**	**84.2**	**85.7**
Net taxes on production	1.4	1.4	1.4	1.4	1.4	1.3
Other taxes on production	1.4	1.4	1.4	1.4	1.4	1.3
Other subsidies on production	0.0	0.0	0.0	0.0	0.0	0.0
GDP at basic prices	**85.8**	**85.8**	**85.8**	**85.8**	**85.6**	**87.0**
Net taxes on products	14.2	14.2	14.2	14.2	14.4	13.0
Taxes on products	14.2	14.3	14.2	14.2	14.4	13.0
Subsidies on products	0.0	0.0	0.0	0.0	0.0	0.0
GDP at Market Prices	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Sectorial Distribution of Employment, Selected Periods, 1980-2014

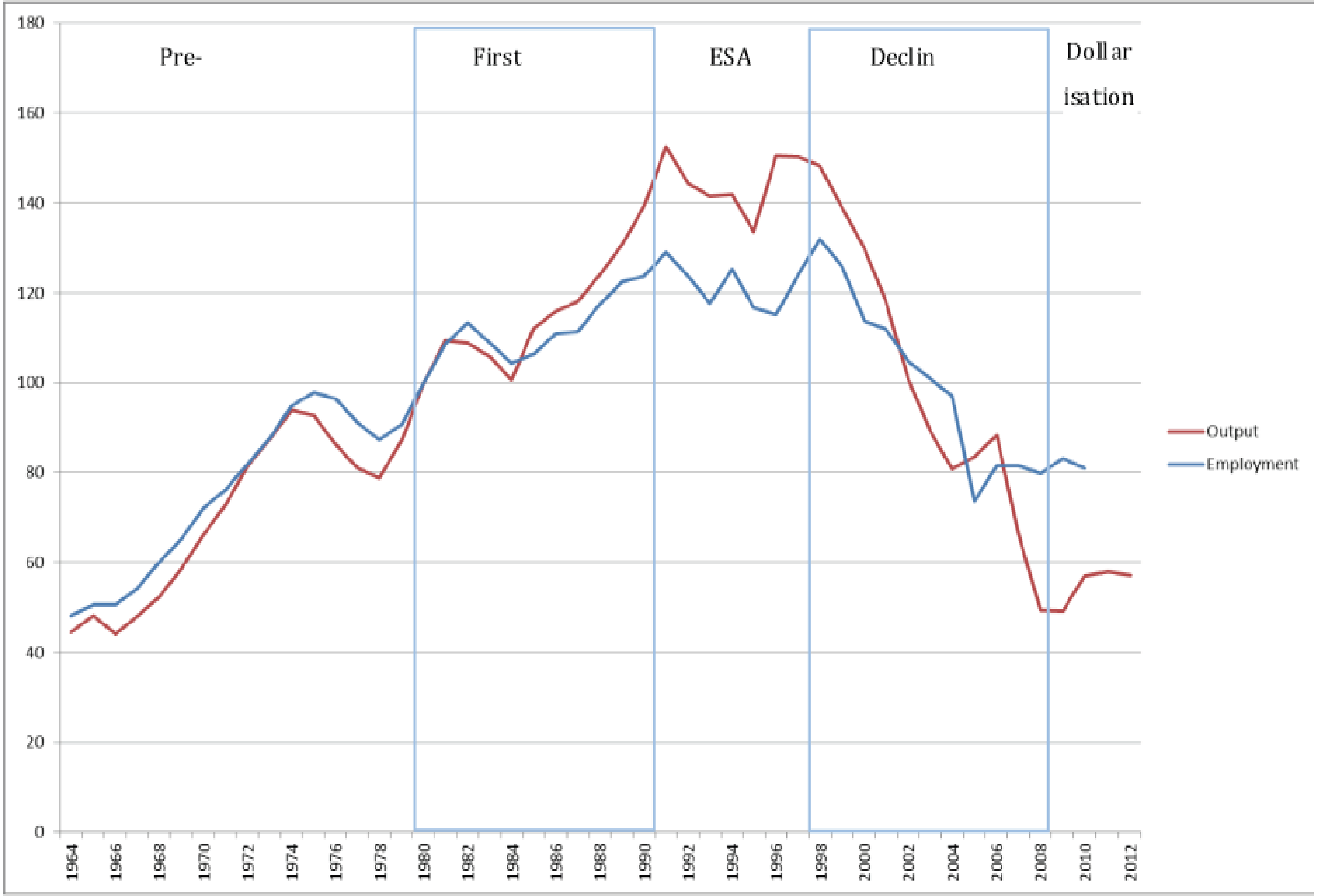
Sector/Year	*1980*	*1990*	*2000*	*2010*	*2014*
Agriculture	32.4	24.3	26.3	32.9	29.6
Mining	6.6	4.3	3.6	3.0	3.4
Manufacturing	15.8	16.5	14.7	11.5	8.4
Electricity & Water	0.7	0.7	0.9	1.3	1.7
Construction	4.2	6.4	4.3	1.8	1.8
Financial Services & Real Estate	1.2	1.5	2.8	6.0	4.6
Distribution	7.0	8.1	8.4	6.5	7.4
Transport & Communication	4.5	4.5	3.5	2.4	3.2
Public Administration	7.0	7.8	4.7	7.9	9.9
Education	4.1	9.1	11.3	10.2	13.3
Health	1.5	2.1	2.3	4.0	4.2
Private Domestic Services	10.7	8.6	8.3	8.1	7.6
Other	4.3	6.2	9.0	4.3	5.0
Total	100	100	100	100	100

Source: Calculated from ZIMSTAT data.

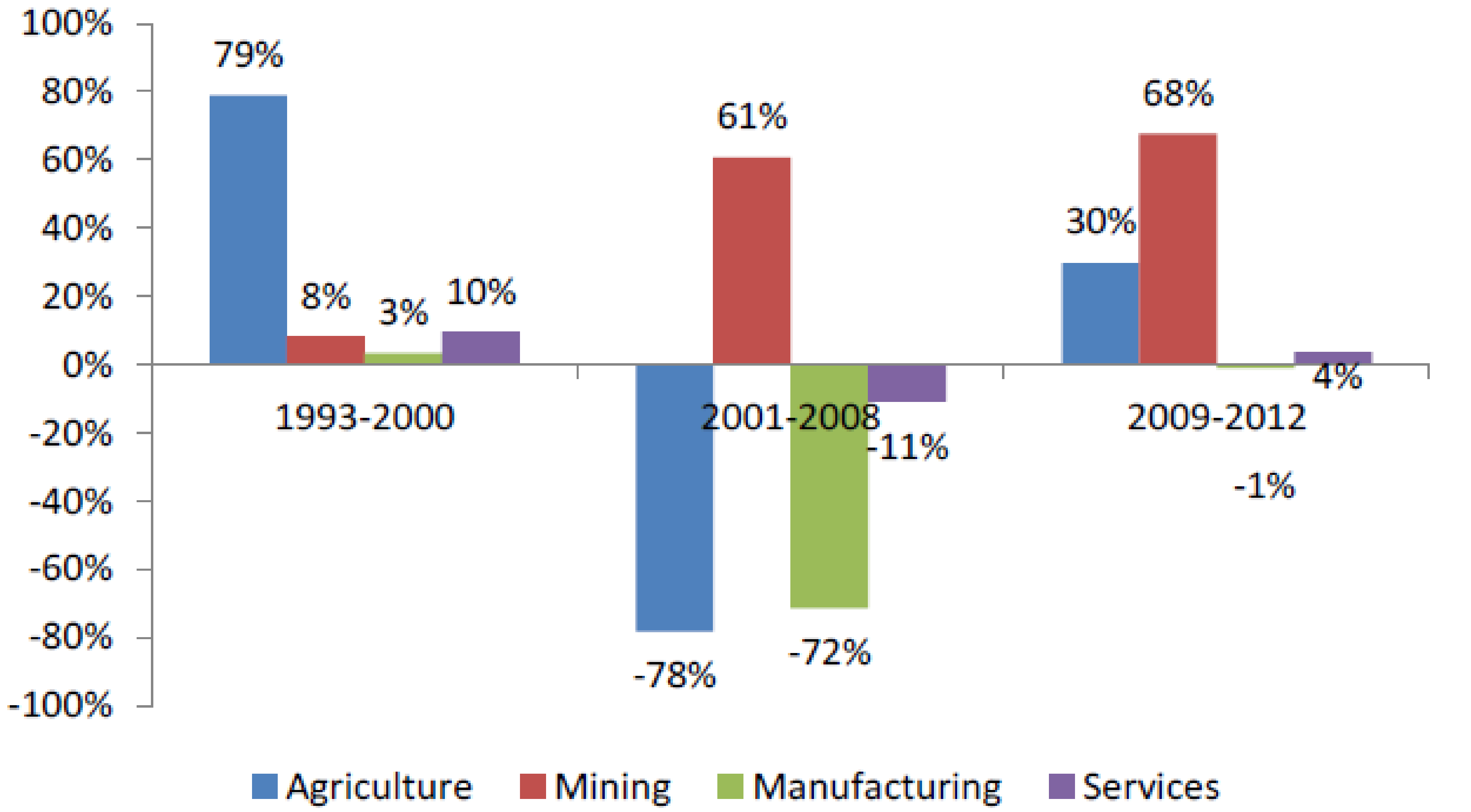
Summary of Company Closures and Employees Affected (2011 – 2014)

Sector	Companies no longer Employing						Employees Affected				
	2011	2012	2013	2014	Total		2011	2012	2013	2014	Total
Agriculture	189	124	54	1	368		3020	1854	515	76	5465
Mining	34	33	13	2	82		1530	1410	351	17	3308
Manufacturing	179	153	113	13	458		2021	4683	3214	60	9978
Electricity and Water	1		1		2		3				3
Construction	154	111	46	6	317		1463	687	1479	22	3651
Finance and Insurance	23	11	7	1	42		68	105	21	2	196
Real Estate	19	16	9	0	44		131	58	29		218
Distribution, Hotels and Restaurants	970	683	407	82	2142		6897	4356	6632	528	18413
Transport and Communication	134	62	43	6	245		1177	432	455	32	2096
Public Administration											
Education	35	20	15	2	72		168	67	78	7	320
Health	18	15	11	0	44		183	123	38		344
Domestic Services	8	24	11	1	44		41	117	205	6	369
Other Services	366	216	148	20	750		2489	6933	1482	178	11082
Total	2130	1468	878	134	4610		19191	20825	14499	928	55443

Figure IV-1. Indices of manufacturing gross output and employment



Mining drives export recovery post-2009 (contribution to export growth - %) - one cylinder is firing (mining)



External trade

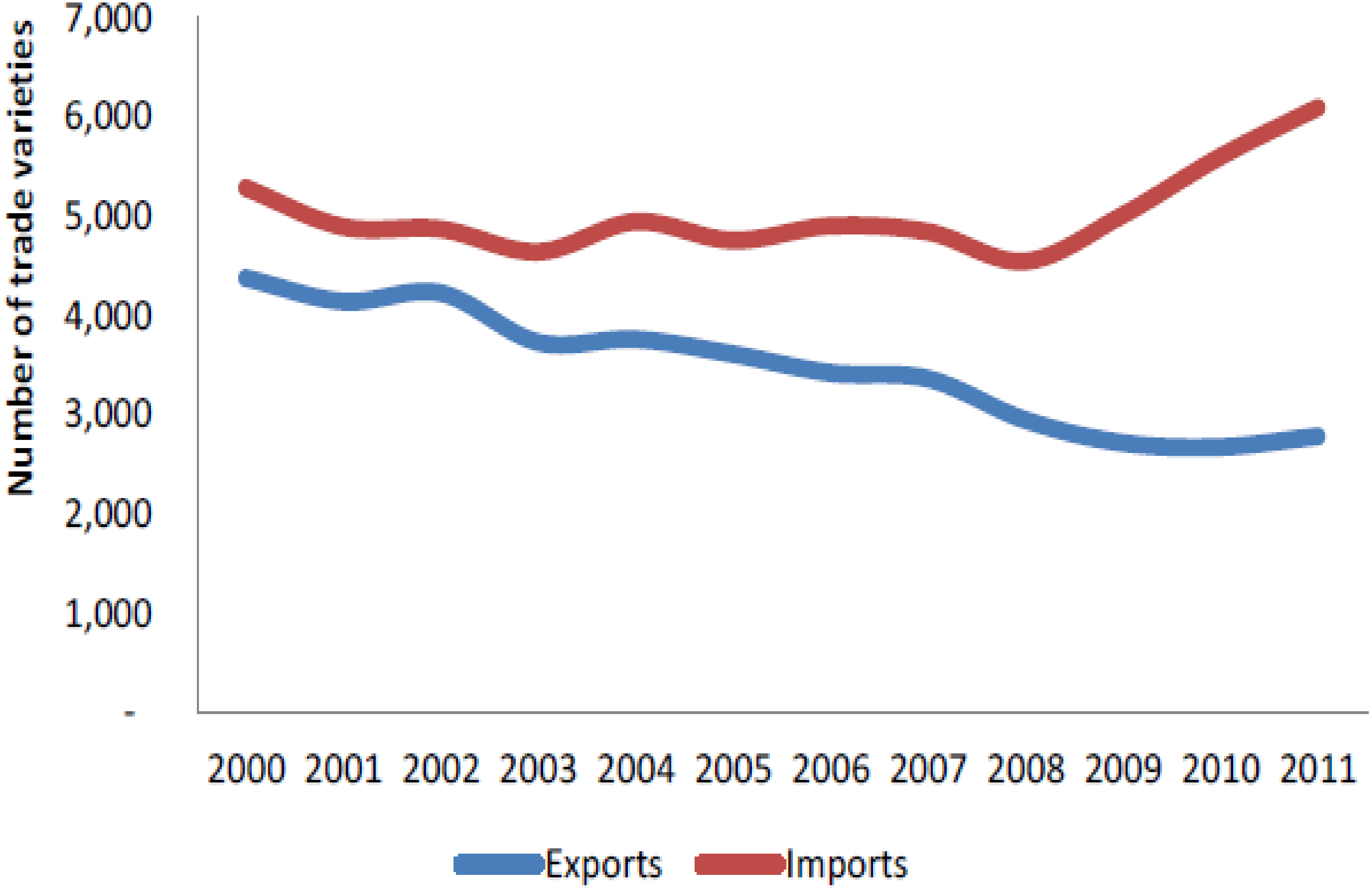
- Exports are projected at US$3.4 billion in 2015, against imports of US$6.3 billion, resulting in a trade deficit of US$2.9 billion compared to US$2.7 billion in 2014.
- The large trade deficit reflects the country's over-dependence on imports, most of which can be produced locally.
- The huge import bill is also fuelled by the continued depreciation of the rand against the US dollar, which lost over 13% of its value against the US dollar since January 2015, undermining the competitiveness of Zimbabwean exports.
- Of the US$2 billion export earnings during the period January to October 2015, at least 80% were primary commodities (agricultural products and minerals), while imports amounted to US$5 billion.
- A current account deficit of US$2.6 billion is projected in 2015 against US$2.8 billion in 2014; 18.7% of GDP against a SADC macroeconomic convergence target of under 9%.

Export Commodities

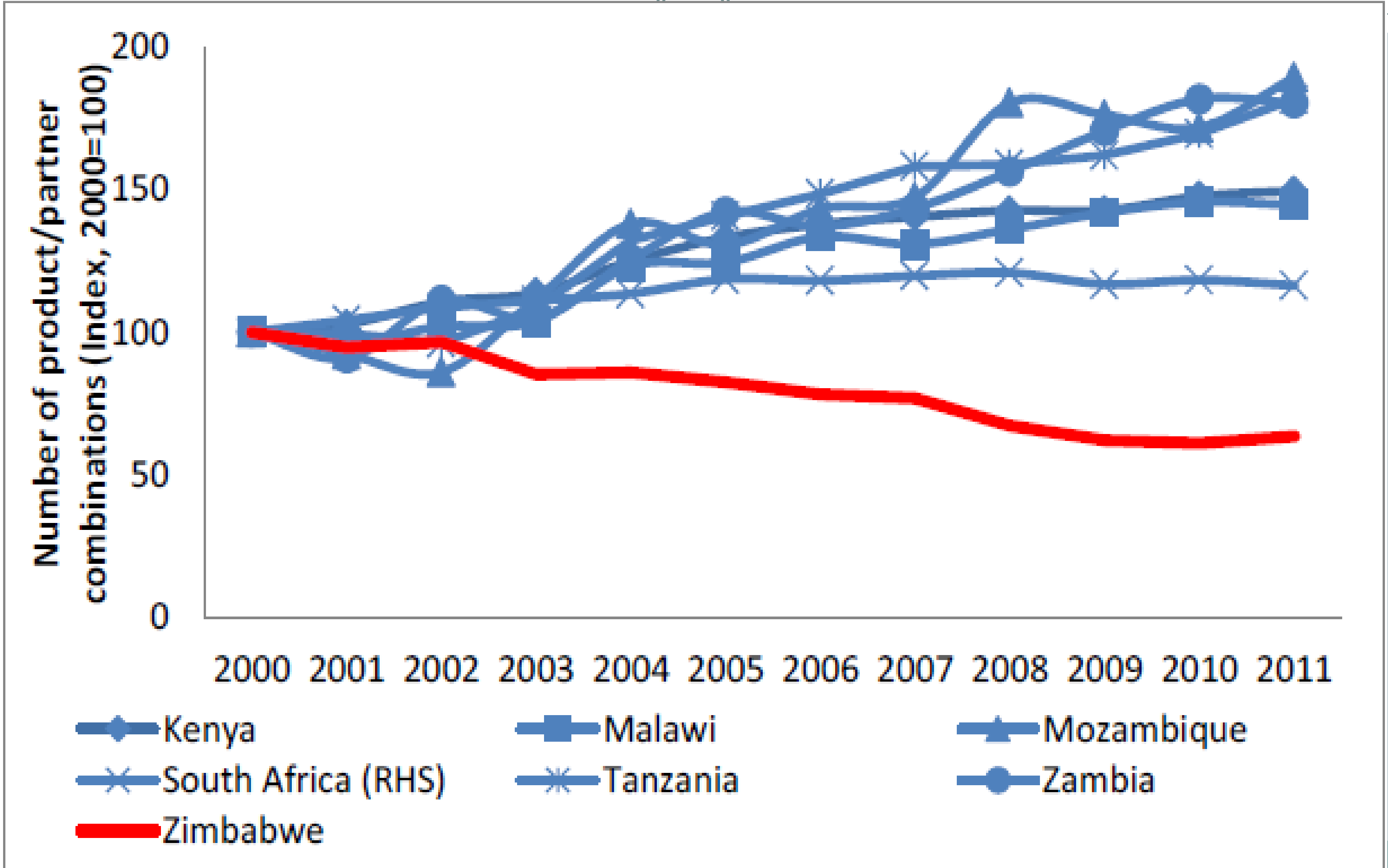
Commodities	US$m	% Share of total exports
Gold	503.0	24%
Flue-cured tobacco	481.2	23%
Nickel ores and concentrates	192.3	9%
Ferro-chromium	138.8	7%
Industrial diamonds	137.6	7%
Sugar Cane	95.5	5%
Electrical energy	37	2%
Platinum	36.5	2%
Cotton	25.2	1%
Granite	23.0	1%
Nickel	22.2	1%
Unsorted diamonds	19.6	1%
Other	366.7	18%
Total	**2 077.7**	**100%**

Source: ZIMSTAT

Export portfolio is less diversified



Zimbabwe's falling diversification contrasts starkly with other African countries



- Exports are projected to increase to US$3.7 billion in 2016, from US$3.4 billion in 2015 due to expected improved performance of minerals, namely gold, nickel, diamonds and ferro chrome, chrome ore and fines; tobacco and horticultural produce.

- Imports are projected to decline slightly from US$6.3 billion in 2015 to US$6.2 billion in 2016 reflecting the measures put in place to protect local producers.

Public Debt

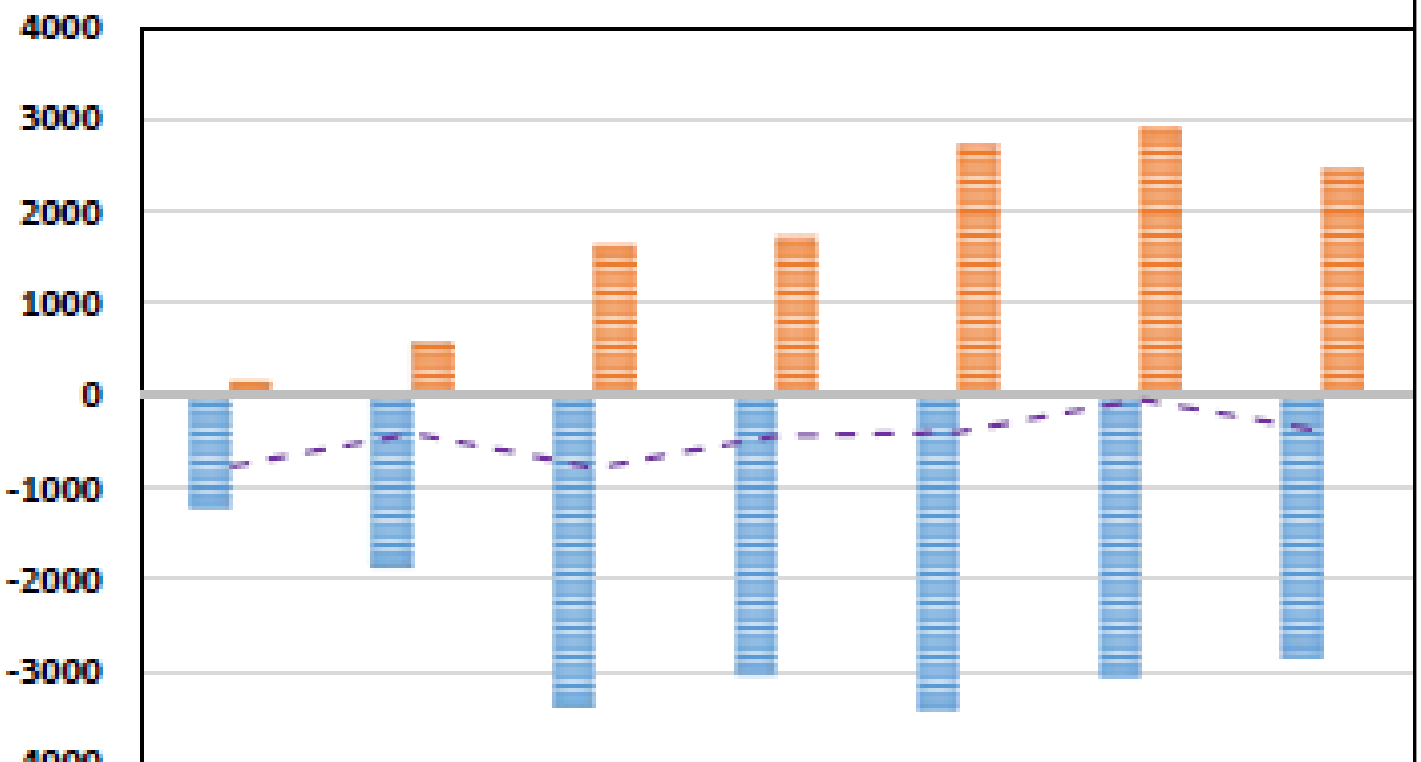
- Debt distress: total public and publicly guaranteed debt including arrears is estimated at US$8.368 billion as at September 2015, of which US$1.290 billion is domestic debt, whilst US$7.078 billion is external debt.

- Of the bilateral debt, 75% is owed to the Paris Club, and 25% to the Non-Paris Club.

- Of the US$2 462 million owed to multilateral creditors, 57% is owed to the World Bank Group, 26% to the African Development Group, 10% to the European Investment Bank, 5% to the IMF and 3% to other creditors.

- The bulk of public domestic debt relates to market issuance of treasury bills to assume Reserve Bank debt, under the Reserve Bank Debt Assumption Act passed into law in August 2015.

Overall Balance of Payments (US$ Million)



	2009	2010	2011	2012	2013	2014	2015
CURRENT ACCOUNT	-1224	-1878	-3386	-3042	-3431	-3065	-2839
CAPITAL ACCOUNT	167	587	1633	1722	2723	2915	2454
Overall Balance	-761	-407	-783	-435	-392	-40	-386

Source: RBZ, Ministry of Finance & Zimstat

- Persistent revenue under-performance, forced Government to delay, postpone, or defer implementation of some expenditures on operations, projects and programmes.

- Original proposed Budget of US$4.1 billion for 2015 revised due to drought and lower commodity prices to US$3.54 billion.

- Contribution of the revenue head declined from an average of 30% of total revenue during 2012 and 2013 to the current 26%.

- Accumulation of arrears on unavoidable expenditures, and slow-down in implementation on a number of capital development projects.

- Day to day operations of Ministries and Departments also not spared, all experiencing late and reduced disbursements.

- Additional provisions of US$253 million required for inescapable expenditures relating to: Crop inputs support, US$10 million; Employment costs, U$36.8 million; Procurement of grain, US$42.6 million; Tokwe Mukorsi dam, US$55 million; and Operational requirements for line Ministries, US$108.6 million.

- The US$253 million additional expenditures being financed through cutbacks on projects and programmes.

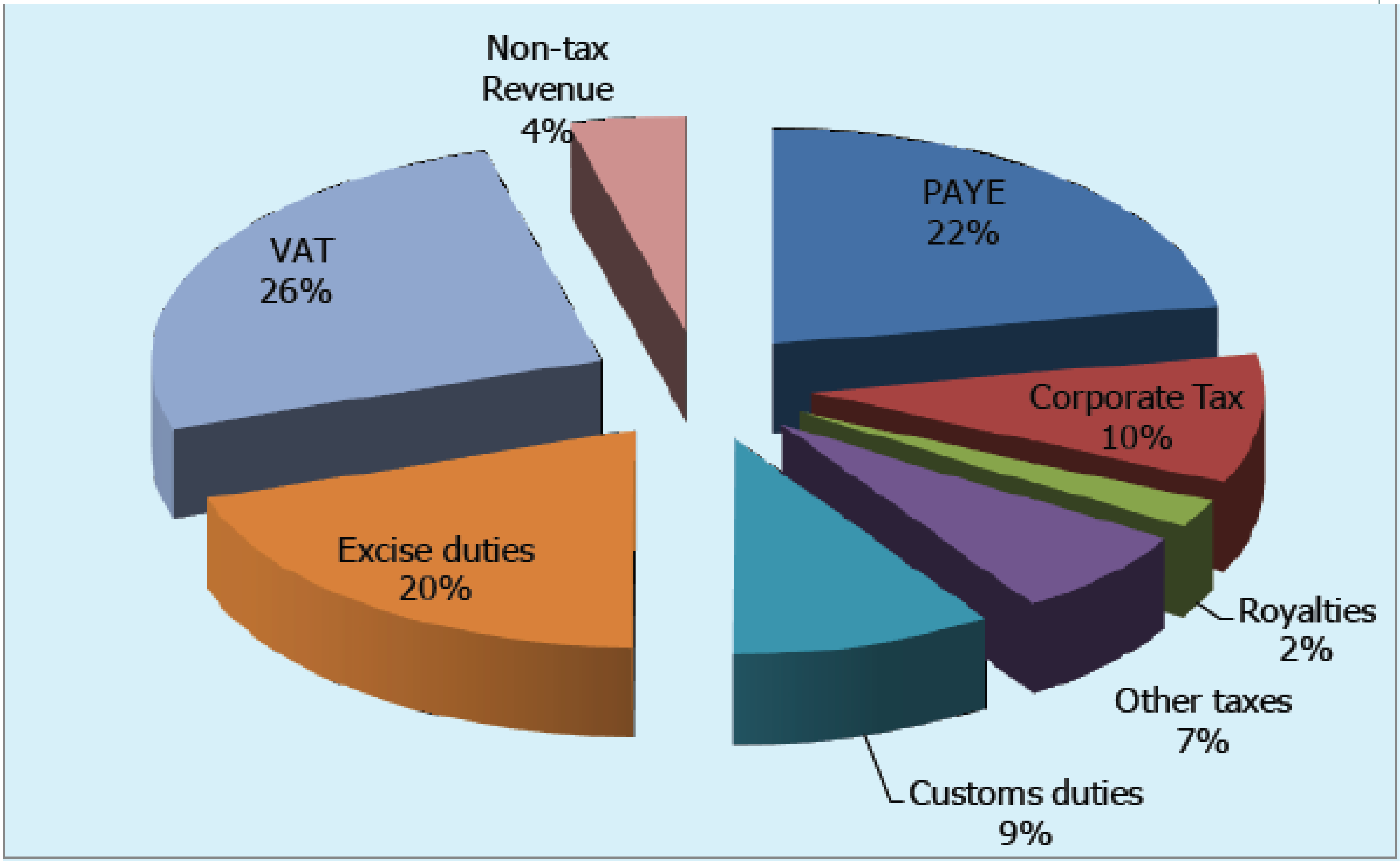
- Additional resources of US$58 million will be required to fully capacitate the newly created Ministries as well as cater for other Government operational requirements to year end.

Sources of Market Liquidity – Supply Side (USD M)

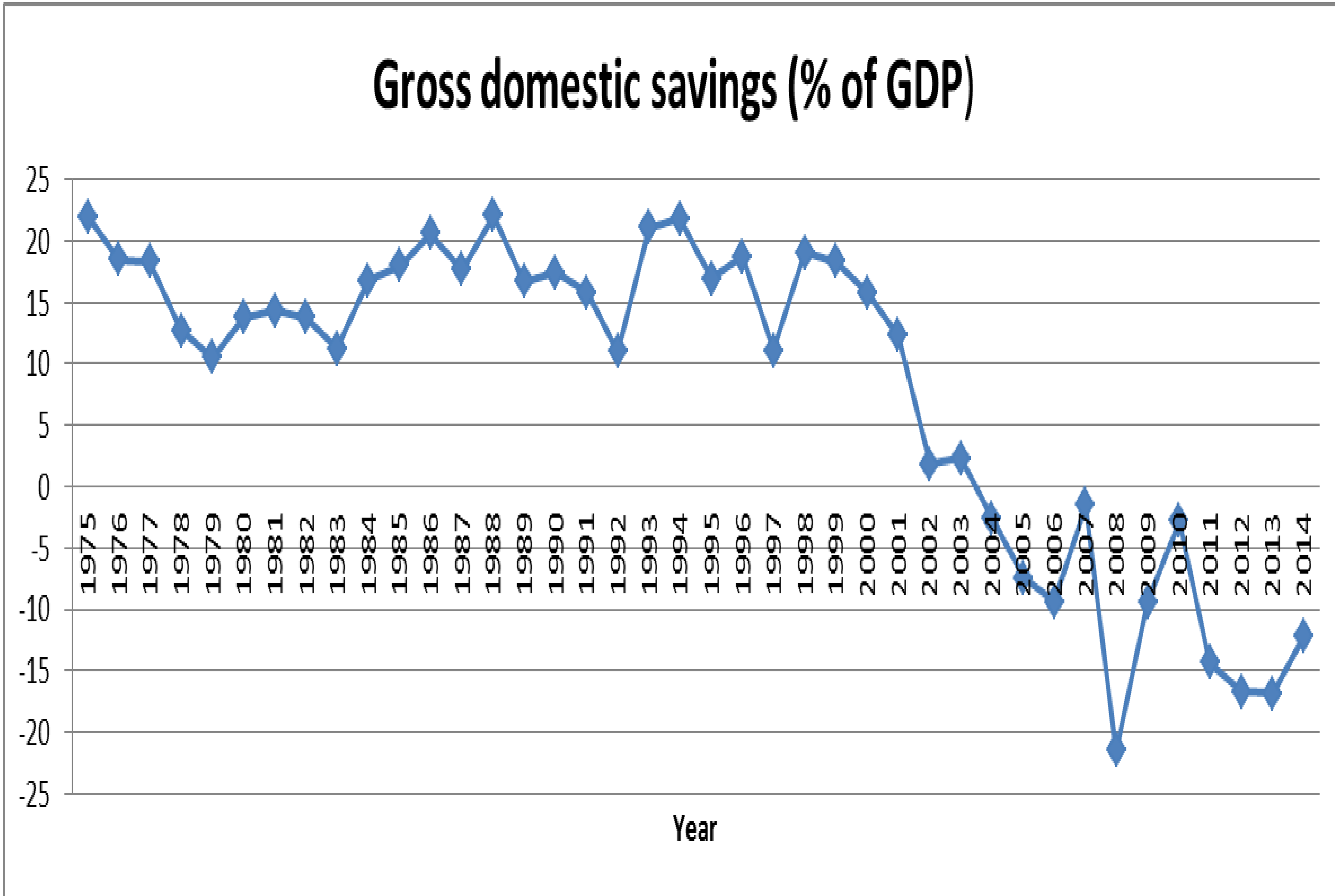
Category	2009	2010	2011	2012	2013	2014	2015	2009-2015	% contr
Banked Export Receipts	1,618	2,287	3,281	4,454	4,535	3,678	2,894	22,747	59%
International Remittances[3]	727	993	1,831	2,030	1,822	1,756	1,962	11,121	29%
External Loans	28	43	167	477	688	825	684	2,912	8%
Income receipts	104	66	237	291	203	77	41	1,019	3%
Foreign Investments[4]	9	0	152	250	400	162	128	1,101	3%
Total	**2,486**	**3,389**	**5,668**	**7,502**	**7,648**	**6,498**	**5,709**	**38,900**	**100%**

Source: Reserve Bank of Zimbabwe Records

Contribution of major revenue heads to total revenue, January to September 2015



Source: Ministry of Finance



Gross domestic savings (% of GDP)
25
20
15
10
5
0
-5
-10
-15
-20
-25
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
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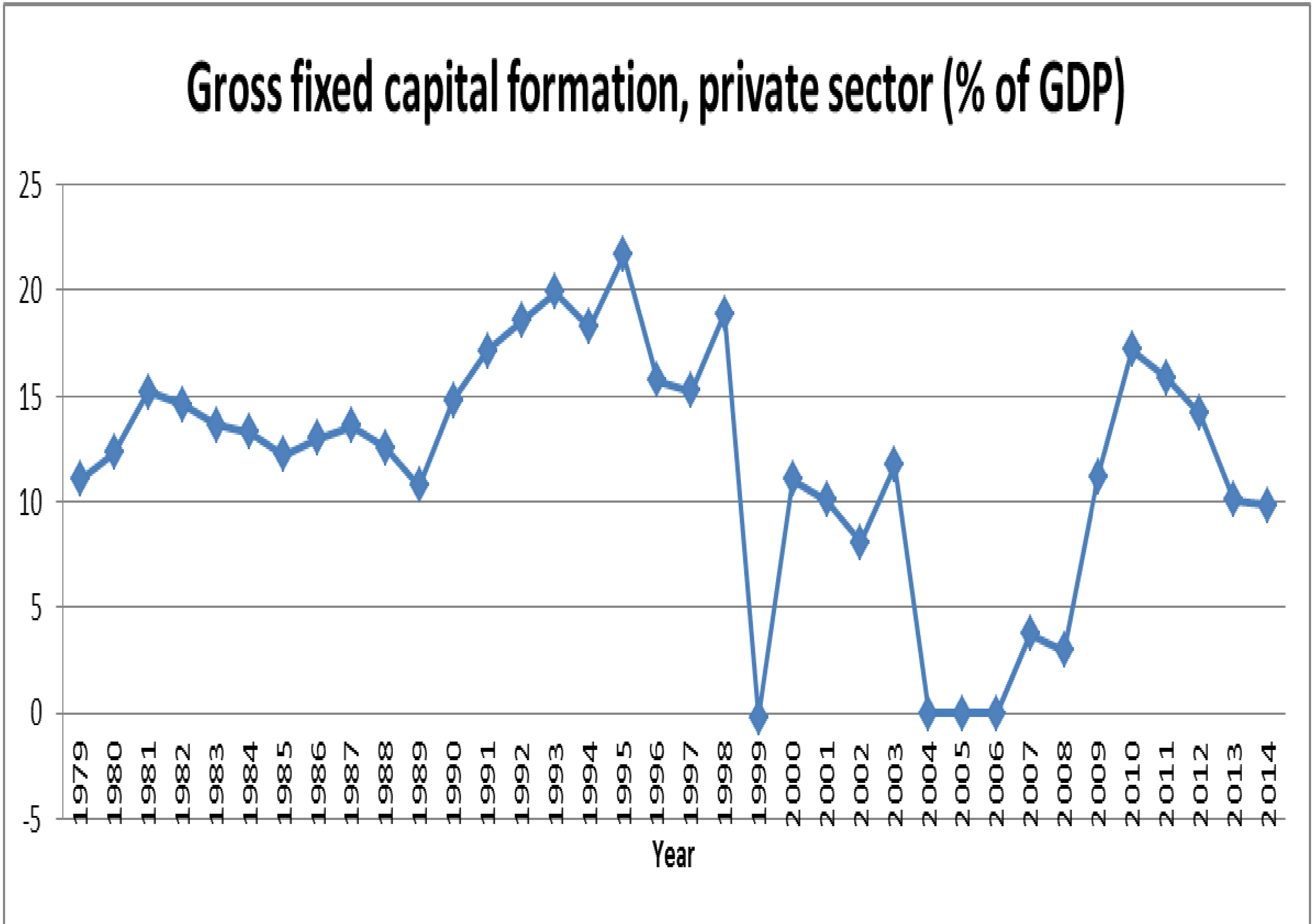
Year


Gross fixed capital formation, private sector (% of GDP)
25
20
15
10
5
0
-5
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
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2014
Year

- Zimbabwe's foreign direct investment inflows amounted to US$1.7 billion over the period 1980 to 2013, compared to US$7.7 billion for Zambia and US$15.8 billion for Mozambique.

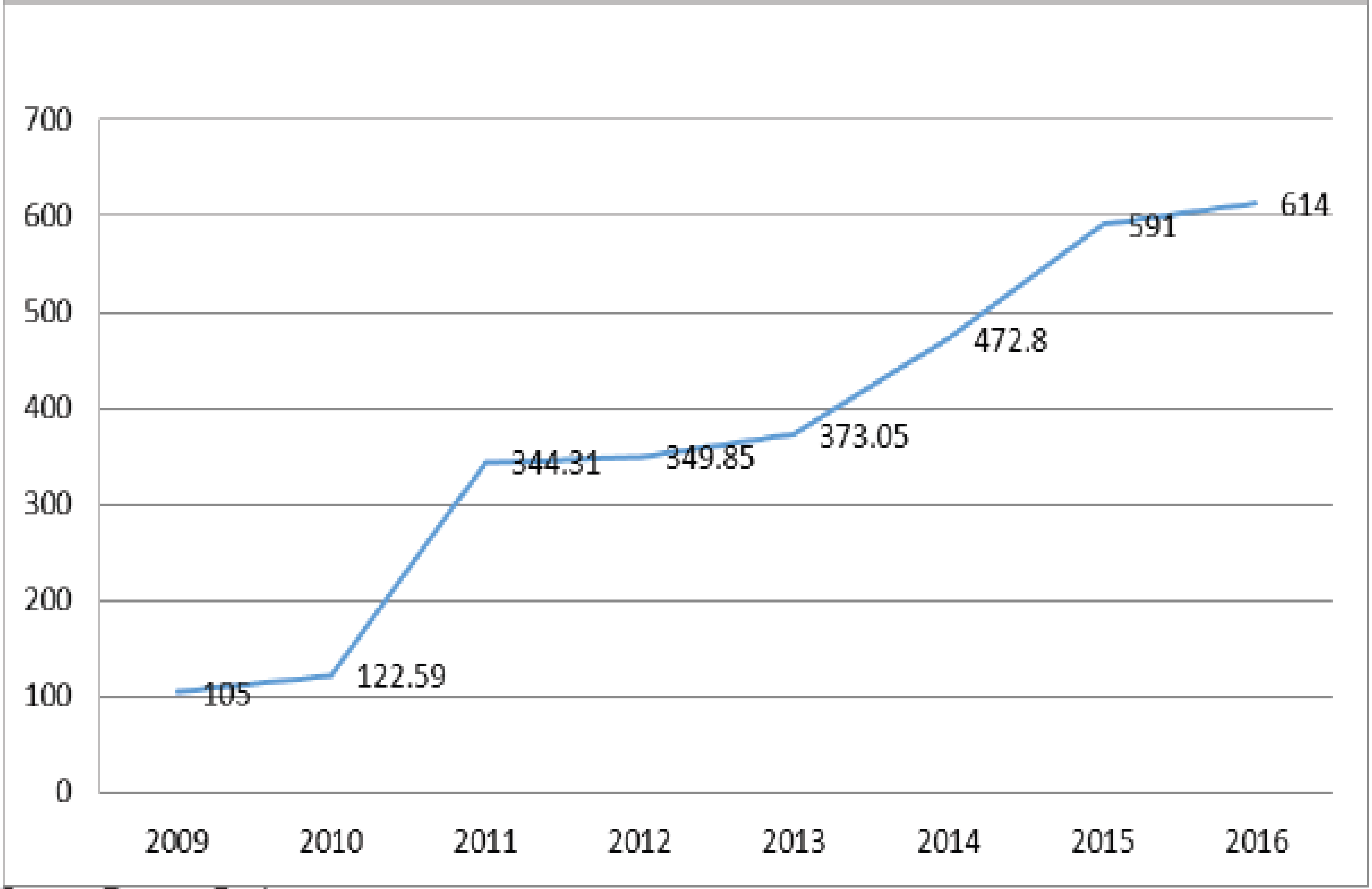
- Of the total of US$25.2 billion received between the 3 countries since 1980, Zimbabwe has accounted for only 7%.

- According to the Reserve Bank of Zimbabwe, average FDI for Zimbabwe was US$88 million compared to US$800 million for Zambia, US$586 million for Mozambique and US$486 million for Botswana during the period 2002 to 2012.

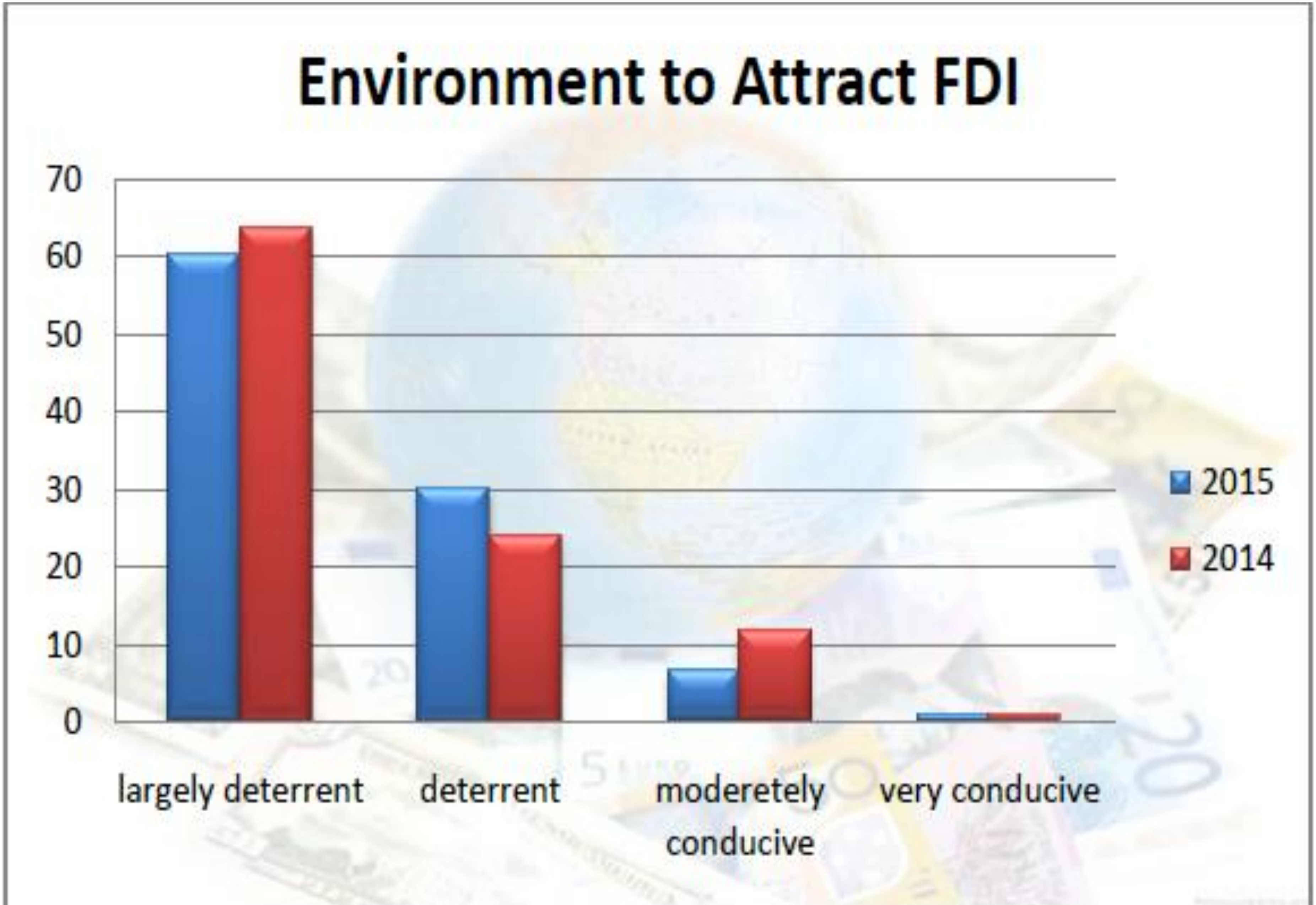
- Foreign direct investment estimated at US$591 million in 2015, and projected at US$614 million in 2016.

- Compared to annual averages of US$6 billion for South Africa, US$2 billion for Zambia, and US$1.8 billion for Botswana.

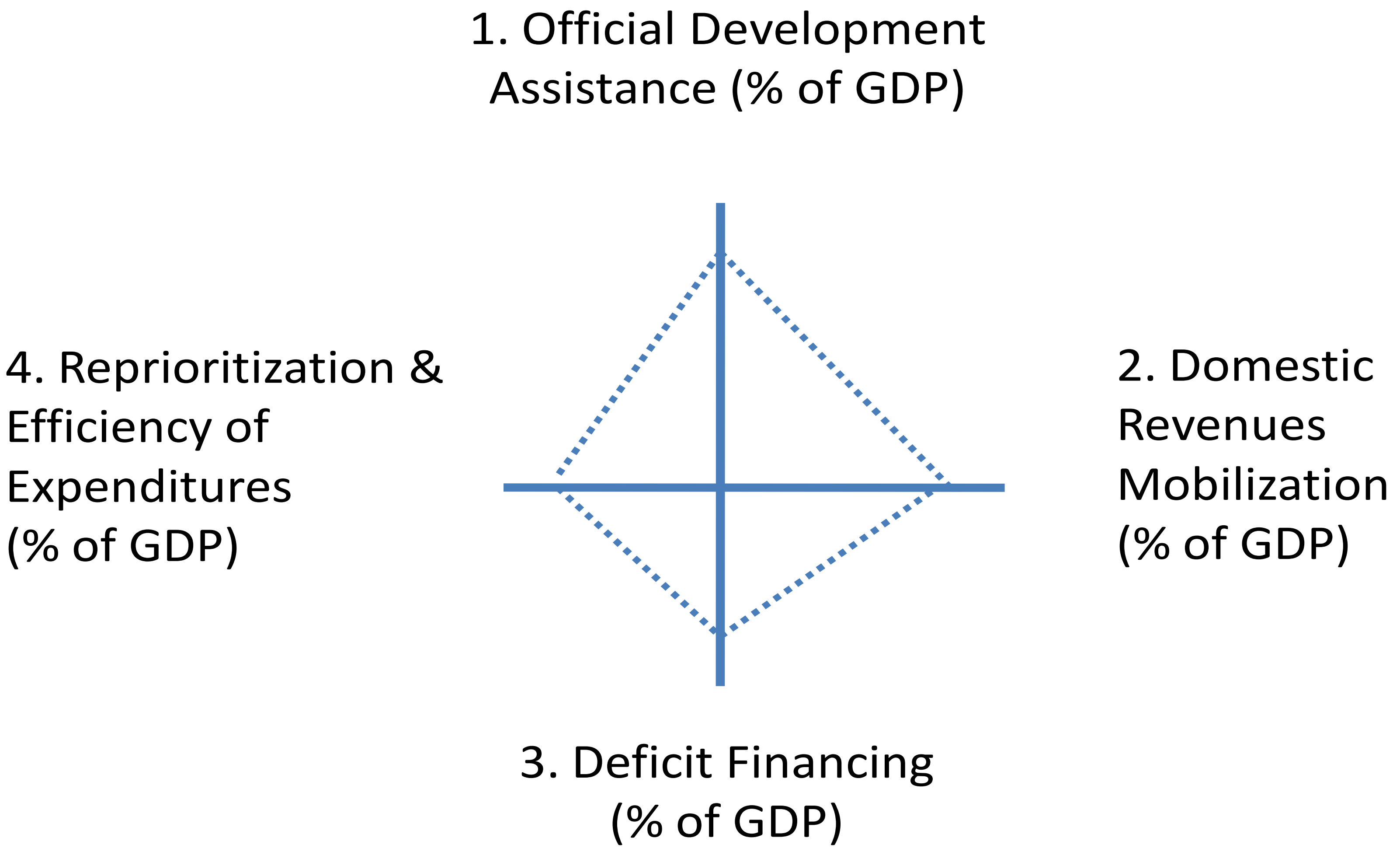
Foreign Direct Investment (US$M).



Source: Reserve Bank

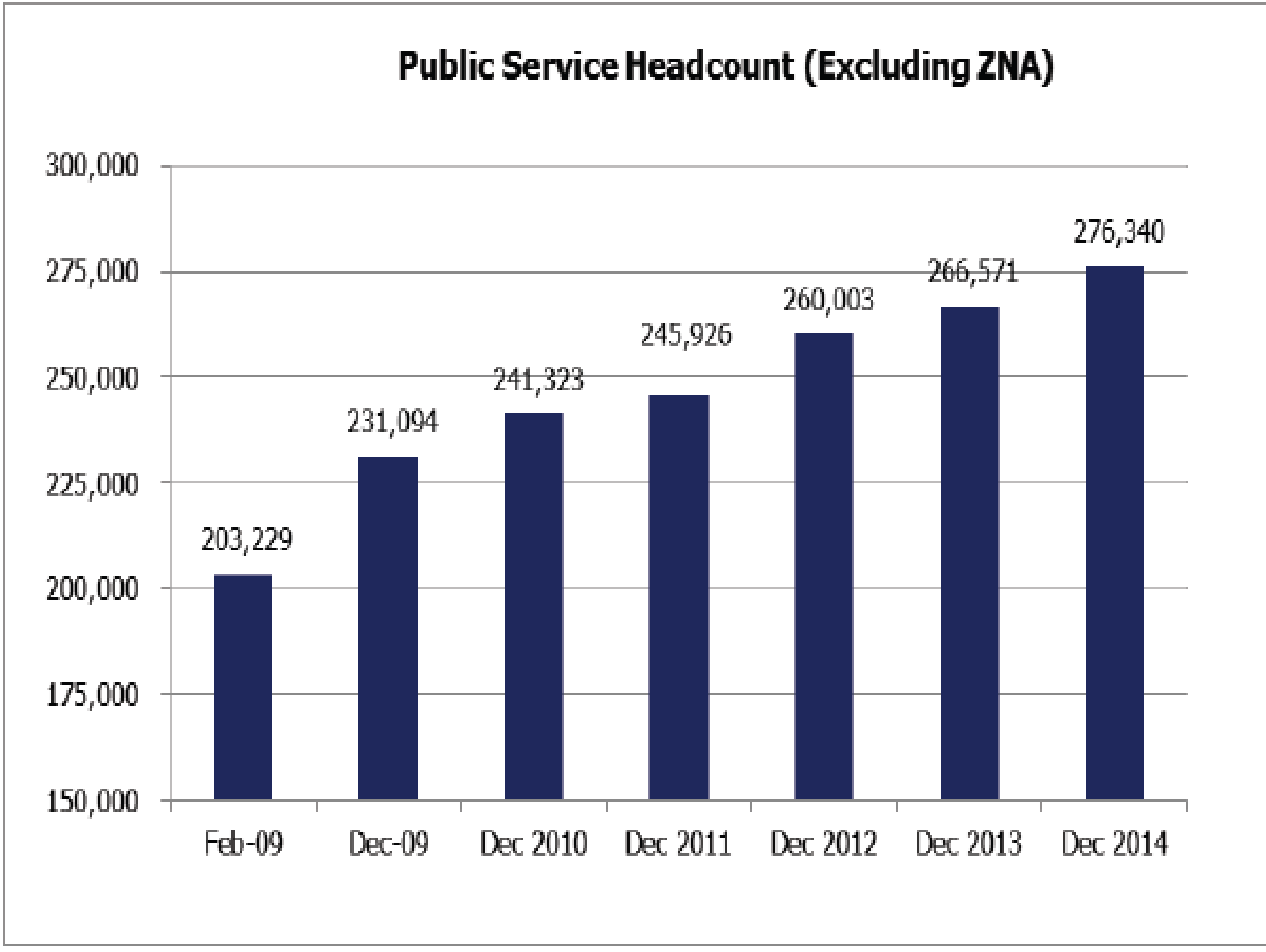

Environment to Attract FDI
70
60
50
40
30
20
10
0
largely deterrent
deterrent
moderetely conducive
very conducive
2015
2014

The Fiscal Space Diamond

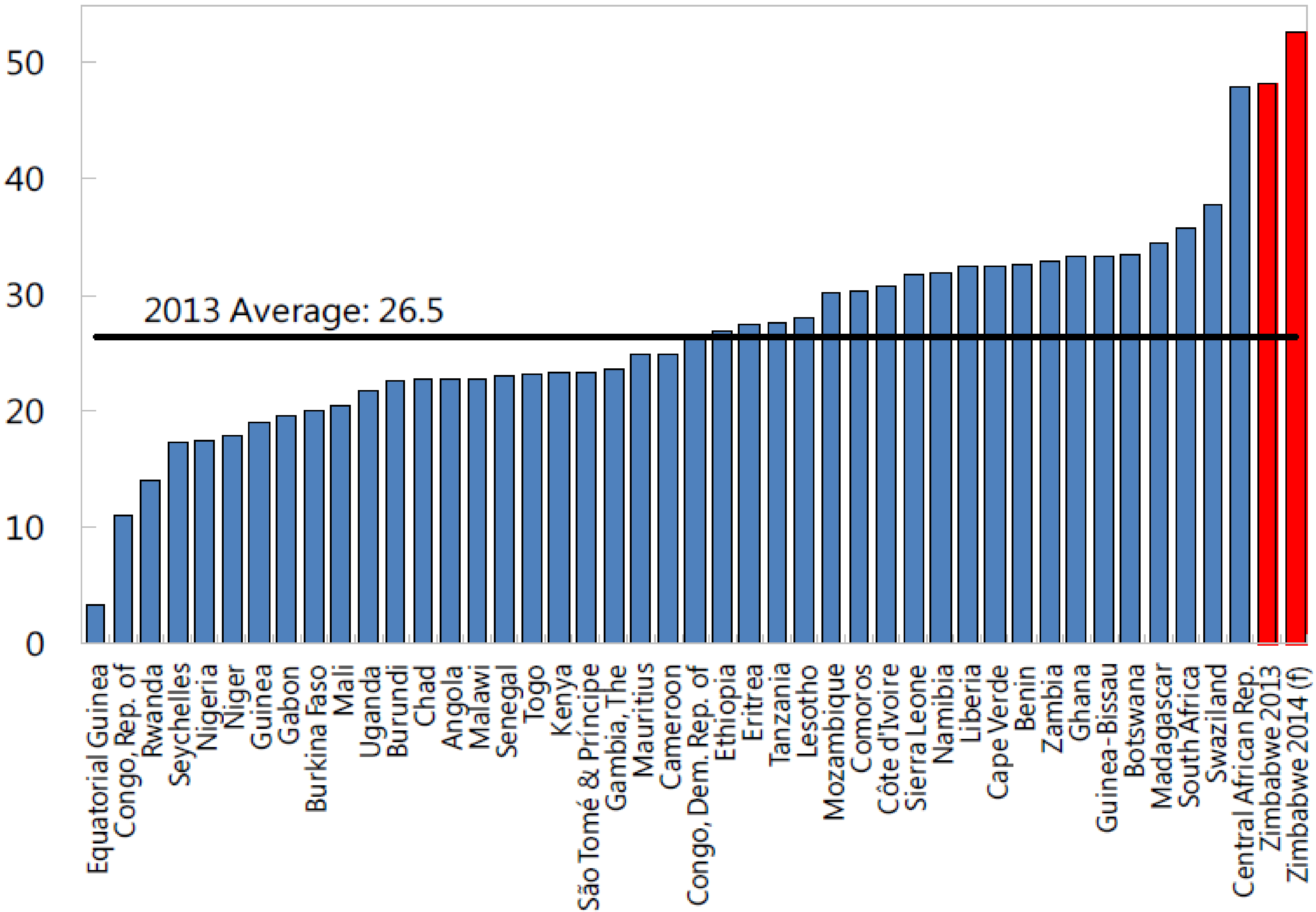


Weak Budget and Unsustainable Expenditure Mix: Example from 2016 Budget

- Based on the projected GDP growth rate of 2.7% (nominal GDP of US$14.2 billion), the projected total revenues for 2016 are US$3.85 billion.
- Proposed Budget of US$4 billion in 2016, with the projected financing gap of US$150 million (-1.1% of GDP) funded largely through borrowing on the domestic market.
- Recurrent expenditure of US$3.685 billion (92.1%), US$384 million for operations (9.6%) (was 10.9% Jan-Sept. 2015), and US$315 million (7.9%) for the development (capital)Budget (was 7.4% Jan-Sept. 2015).
- Projected employment costs of US$3.191 billion (79.8%), marginally higher than the level of 79.7% for the period January-September 2015 – unsustainable expenditure mix.
- Size of the Public Service increased from 203,362 in February 2009 to 276,163 by December 2014, a 35.8% growth rate, despite policy of a general freeze on recruitment introduced by Government in 2011.


Public Service Headcount (Excluding ZNA)
300,000
275,000
250,000
225,000
200,000
175,000
150,000
203,229
231,094
241,323
245,926
260,003
266,571
276,340
Feb-09
Dec-09
Dec 2010
Dec 2011
Dec 2012
Dec 2013
Dec 2014

Sub-Saharan Africa: Civil Servant Wages in 2013 (*percent of government expenditures*)



Weak Institutional Governance

- Institutional weaknesses prevalent in Government, local authorities and public enterprises are a major source of risks which may undermine the 2016 Budget implementation (paragraph 125, page 35).
- Weaknesses of institutions and corporate governance shortcomings are a recurrent issue raised in the Reports of the Auditor and Comptroller General.
- As noted in the Budget Statement, "Clearly, we cannot grow our economy if our corporate management structures at both public and private entities are allowed to persist, demonstrate inefficiency and unaccountability over use of scarce resources," (paragraph 398, page 88).
- In the 2016 Budget Statement, an example is given from ZETDC, where a provision of US$482 million was made for power generation, transmission, distribution and rural electrification to address the power shortages.
- Out of the US$482 million, ZETDC's own resources to contribute US$89 million.

- Yet ZETDC's debtors' book as at 30 September 2015 stood at US$1 billion and growing due to the culture of not paying for services.

- Overall requirements for infrastructural development for 2016 amount to US$2.7 billion - ZETDC should take a more business approach

- Government finalising work on Corporate Governance Bill to establish corporate governance and performance principles for SOEs by first half of 2016.

- Processes of amending the PFM Act to include monitoring and close oversight of public enterprises and local authorities is complete, and the PFM Amendment Bill was gazetted on 23 November 2015, and will be tabled in Parliament.

- Unit within the Accountant General's Department to analyse audit reports, enforce issues of compliance raised by the Auditor General and ensure that Government is responsive to issues raised by the Auditor General and Parliament and to promote compliance and accountability of Ministries and Departments in line with their obligations under the PFM Act with regards to public resources.

- As the mid-term 2015 Fiscal Review Statement indicated, Government is losing US$1.8 billion annually through smuggling, illegal dealing in gold and precious stones, corruption, fraud, tax evasion, and externalization, among others.

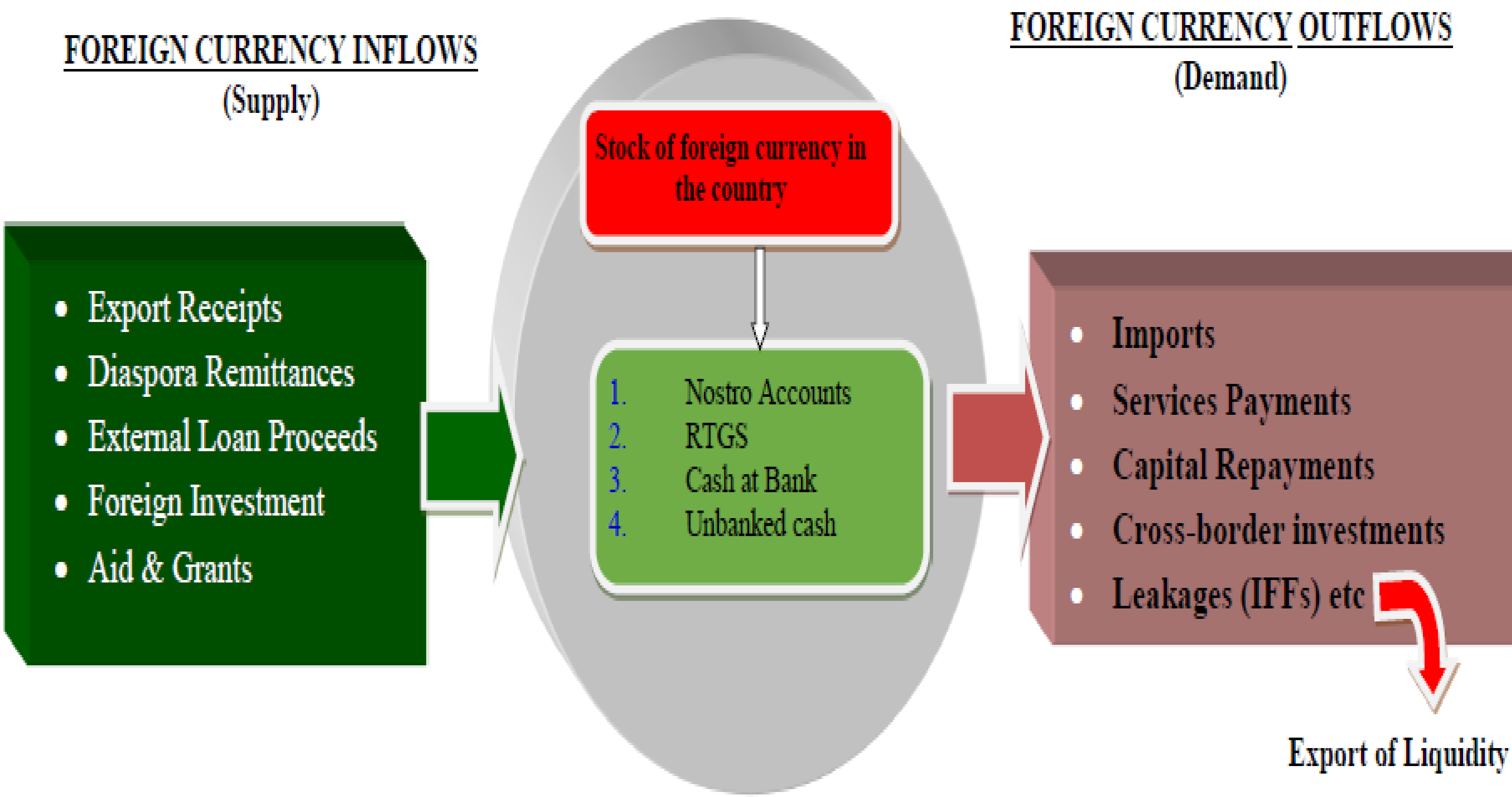
- On diamonds, the 2016 Budget Statement notes that: "…this is a resource that seems to have not benefitted the generality of our people, notwithstanding that the diamond industry has potential to uplift our population, especially as we fully exploit the diamonds value chain," (paragraph 357, page 81).

- Furthermore, "Indeed, there was greater economic impact from diamonds during times of uncontrolled alluvial panning than what is being realised following introduction of formal diamond mining arrangements," (paragraph 358, page 82).

- During 2015, US$684 million was externalized by individuals in the form of donations, investments, account transfers etc, with firms externalizing a further US$1.2 billion export sales proceeds.

- Subtitle of the Monetary Policy Statement of January 2016 is on ***"Economic Transformation Through Transparency And Accountability."***

- Slow progress on operationalisation of the Zimbabwe Investment Authority "*One Stop Shop Centre*" due to reluctance on secondment of staff by relevant line ministries and departments.



- Foreign currency inflows contribute positively to the stock of forex in the country.
- Foreign currency outflows deplete the stock of foreign currency in the country.
- Economic transformation requires "a plugging the leakages approach" to mitigate against the export of liquidity through IFFs, trade mispricing and unsanctioned unproductive investments.

Rationalisation of the Public Service

- Cabinet decision to undertake some rationalisation of the country's Public Service Establishment to cut down the size of the wage bill (February 2015).

- Based on Civil Service Human Resource and Payroll Systems Audit Report by the Public Service Commission.

- Entails rationalisation of posts (youth officers at ward level, women's affairs etc.), review of vacation leave policy (education and Manpower Development (non-payment of salaries and allowances on study leave), rationalisation of student teacher allowances, withdrawal of support to non-formal education, non-payment of remuneration to teachers at Trust Schools, reducing employment cost obligations to Grant Aided Institutions, retirees on annually renewable contracts, redress overlaps and duplication of functions

- Projected monthly savings of US$14.2 million & annually US$170.4 million from 2016.

- ***Public Enterprises Wage Bill:*** State enterprises long ceased to yield value to the State and economy.
- Incur employment costs: e.g. Air Zimbabwe, IDC, ZBC, ZISCO Steel, CSC, NRZ, and GMB, among others.
- Restructuring and re-organisation of SOEs very slow.
- Realignment of cost structures by local authorities.
- Local authorities and SOEs to observe golden rule that 30% of revenues are set aside for remuneration, while 70% is for service delivery.

Vote Allocations Against International Benchmarks

- As a percentage of total votes, health received 7.1% in 2014, a projected outturn of 8.2% in 2015 and 8.3% in 2016, against the Abuja Declaration where at least 15% of the budget should go towards the health sector.

- As a percentage of the total vote, primary and secondary education received 18.5% in 2014, 22.7% in 2015 and 20.3% in 2016, against the the Dakar Declaration where at least 20% of the National Budget should be allocated towards education. 98.4% of budget taken up by employment costs.

- As a percentage of total vote, Agriculture, Mechanisation & Irrigation Development received 8.3% in 2014, 5.3% in 2015 and , 3.6% in 2016 against international standard (the Maputo Declaration) of 10% towards agriculture.

- The current national housing back log stands at about 1.250 million units.

- Unscrupulous individuals, 'Land Barons' are illegally selling undeveloped stands that they do not own to individuals at high prices for their own benefit.

- As a result, around 30 000 members were duped of a cumulative US$57 million.

Vote Appropriations

	2015	2016
Agriculture, Mechanisation & Irrigation	5.3%	3.6%
Environment, Water & Climate	2.3%	0.8%
Health & Child Welfare	8.2%	8.3%
Primary & Secondary Education	22.7%	20.3%
Small & Medium Enterprises & Cooperative Development	0.1%	0.1%
Lands & Rural Resettlement	0.2%	0.2%
Total Expenditure & Net Lending	100.0%	100.0%

Cluster	Budget	Outturn	Outstanding Support
	US$m	US$m	US$m
Food Security and Nutrition	77.5	28.8	48.7
Social Services and Poverty Reduction	125.2	44.3	80.9
Infrastructure and Utilities	127.7	20.1	107.6
Cross Cutting Issues	108.2	96.7	11.5
Total	438.5	189.8	248.7

Source: Ministry of Finance and Economic Development

Structural Changes in the Economy

- Informalisation of the economy and, the structural change in agriculture in view of land reform. The reallocation of jobs across sectors is central to the process of structural change and productivity upgrading.

- Growth in labour productivity arises either from changes in labour productivity within sectors – for instance through the implementation of new machines and innovative technologies that allow more output with the same amount of labour input – or from the reallocation of jobs across sectors ("structural change") when workers move from low- to high-productivity sectors (e.g. from agriculture to industry or services);

- At the same time, structural change is central and necessary to increase living standards durably and equitably by allowing ever more people to benefit from higher productivity levels in more advanced parts of the economy.

- Zimbabwe is experiencing a structural regression: increasing dependence on natural resources, de-industrialisation; informalisation).

- The share of the manufacturing sector in GDP peaked at 26.9% in 1992 before collapsing to 7.2% by 2002 and averaging 11.7% between 2009 and 2014.

- Industrial capacity utilization declined sharply from 35.8% in 2005 to only 18.9% by 2007, and below 10% by 2008, before improving to 33% in 2009, 43.7% in 2010, 57.2% in 2011, and climbing down to 44.2% in 2012 and 39.6% in 2013, 36.3% in 2014 & 34.3% in 2015.

- The Confederation of Zimbabwe Industries (CZI) in its State of the Manufacturing Survey to observed that: "Industries in Zimbabwe are under serious threat. Deindustrialisation has reached catastrophic levels, with dire consequences to the state of the economy," (CZI, 2014: 6).

- 94.5% of the currently employed persons 15 years and above were informally employed – of the 1.5m in paid employment, 1.4m were in informal employment (up from 84.2% in 2011 and 80% in 2004).

- 98% of the currently employed youth aged 15-24 years and 96% of currently employed youth aged 15-34 years were in informal employment.

- SMEs employ about 60% of the workforce and contribute about 50% of GDP: 85% of MSMEs are unregistered.

Labour Force Framework based on the 2014 Labour Force and Child Labour Survey (LFCLS)

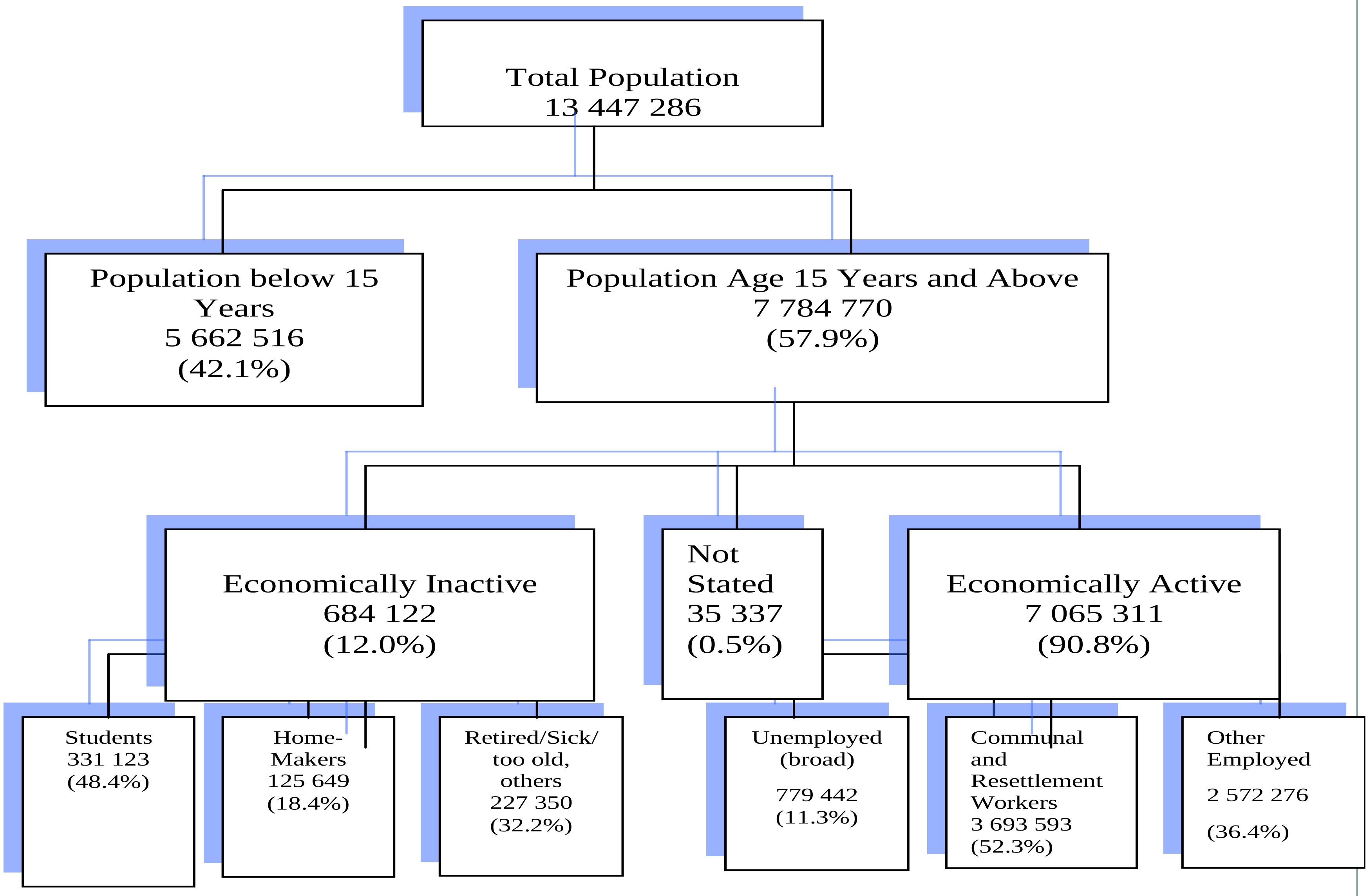


Table 1: Household and Individual Measured Prevalence of Poverty, 1995, 2001 & 2011 (%)

	Household		Individual	
	Poverty	Extreme Poverty	Poverty	Extreme Poverty
PICES 2011/12				
Rural	76.0	22.9	84.3	30.4
Urban	38.2	4.0	46.5	5.6
Zimbabwe	62.6	16.2	72.3	22.9
ICES 2001				
Rural	73.0	42.3	82.4	52.4
Urban	33.8	10.5	42.3	14.5
Zimbabwe	60.6	32.2	70.9	41.5
ICES 1995				
Rural	76.2	50.4	86.4	62.8
Urban	41.1	10.2	53.4	15.0
Zimbabwe	63.3	35.7	75.6	47.2

Source: ZimStat (2013), Poverty and Poverty Analysis in Zimbabwe, 2011/13, April.

Re-engagement-driven Reforms – Arrears Clearance and Debt Resolution

- Focus of 2016 Budget is on Growing the Economy with a Sub-title of "Building a Conducive Environment that attracts Foreign Direct Investment."

- Bold policy reform measures for debt sustainability and improving the socio-economic environment.

- Acceleration of the reengagement process with the international financial community.

- External arrears clearance as agreed in Lima, Peru as a basis to unlock fresh lines of credit.

- Non-HIPC debt resolution strategy supported by credible economic reforms.

- Strategy anchored on clearing external debt arrears to the three IFIs (IMF, World Bank and AfDB) as a basis for resolution of debt to Paris Club and bilateral creditors on the basis of a strong economic reform programme.

- Arrears clearance to the IFIs based on: (i) use of domestic resources to clear US$111 million arrears to the IMF; (ii) bridging finance from regional and international banks to clear the US$601 million debt arrears to the AfDB; and (iii) use of medium to long-term loan facility to clear US$1.1 billion arrears to the World Bank Group.

- The US$1.8 billion debt arrears to the multilateral creditors to be cleared by 30 April 2016.

- Realisation of the debt arrears strategy is based on the successful completion of the Staff Monitored Programme (SMP) with the IMF, with the third and final review to be undertaken around February 2016.

- Access to new resources will be under the auspices of the development of a New Comprehensive Country Financing Programme supported by the AfDB, IMF & World Bank.

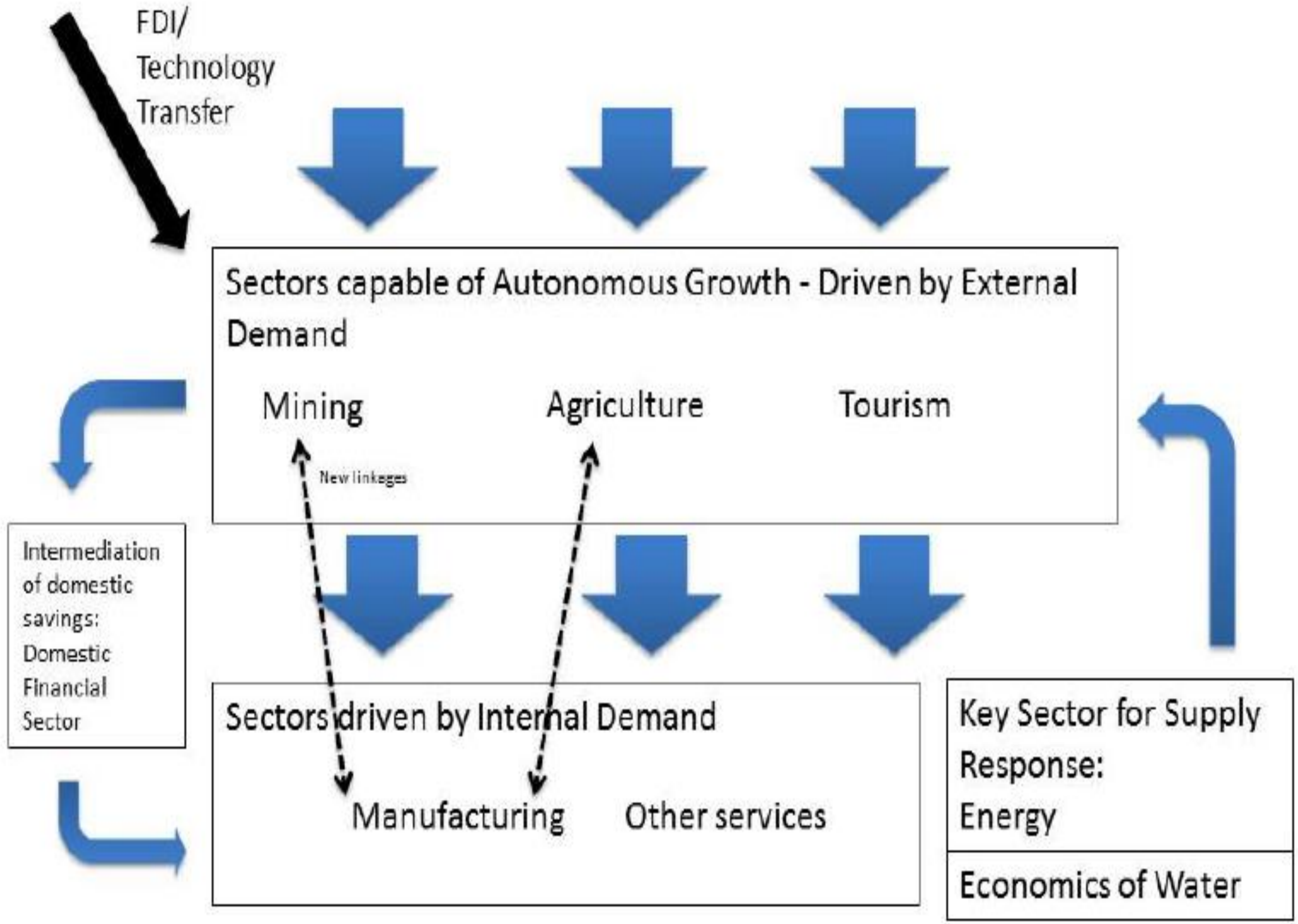
- To facilitate this, the Quadripartite Committee comprising the Ministry of Finance and Economic Development, the Reserve Bank and the three IFIs under the chairmanship of the RBZ Governor has been resuscitated.

- Ease and cost of doing business reforms under the aegis of the Office of the President and Cabinet (OPC) with technical assistance from the World Bank.

- Rank in the 2016 World Bank Ease of Doing Business improved from 171 in 2015 to 155 out of 189 countries after reforms in two areas: *Getting Credit*, where the Zimbabwe ranked 79 from 90; and *Protecting Minority Investors,* where Zimbabwe moved from position 87 to 81.

- To address the constraints affecting competitiveness, Government transformed the National Incomes and Pricing Commission to the National Competitiveness Commission, to spearhead competitiveness and ease and cost of doing business reforms.

Schematic illustration of linkages in the post-crisis Zimbabwean economy (World Bank, 2012)



THANK YOU!