



Addressing Zimbabwe's Current Economic Challenges

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OUTLINE

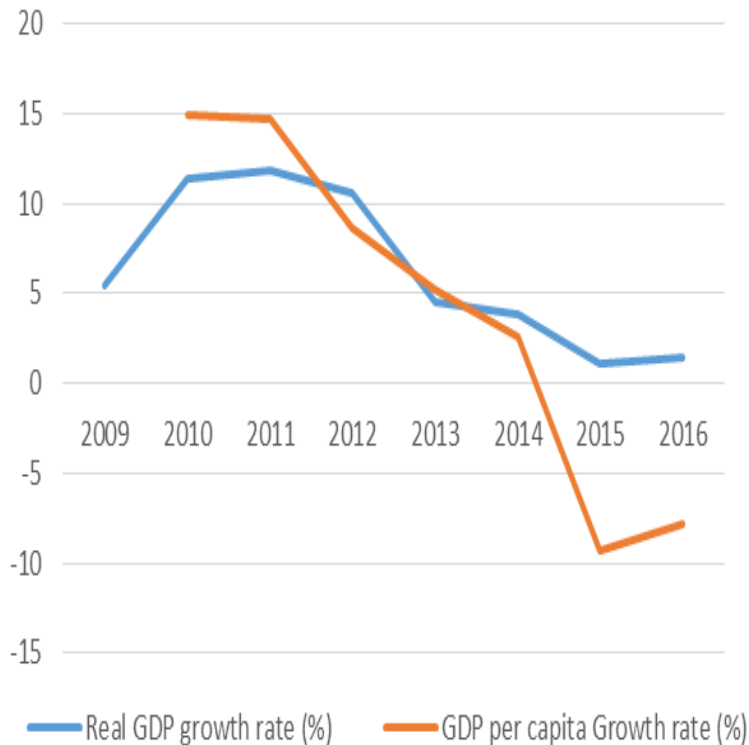
- Introduction
- Background to the Cash Shortage
- Nature of the Shortage
- Policy Responses
- Conclusion



INTRODUCTION

Current economic challenges

Growth Trends since Multi-Currency System



❑ Declining Economic Performance

- Low domestic savings due to low disposable income and informalisation
- Low investment due to lack of long term finance and overall uncertainty
- Frequent droughts and low investments in agric.
- challenging business environment

❑ Liquidity challenges.

❑ Cash crisis

Source: RBZ Database



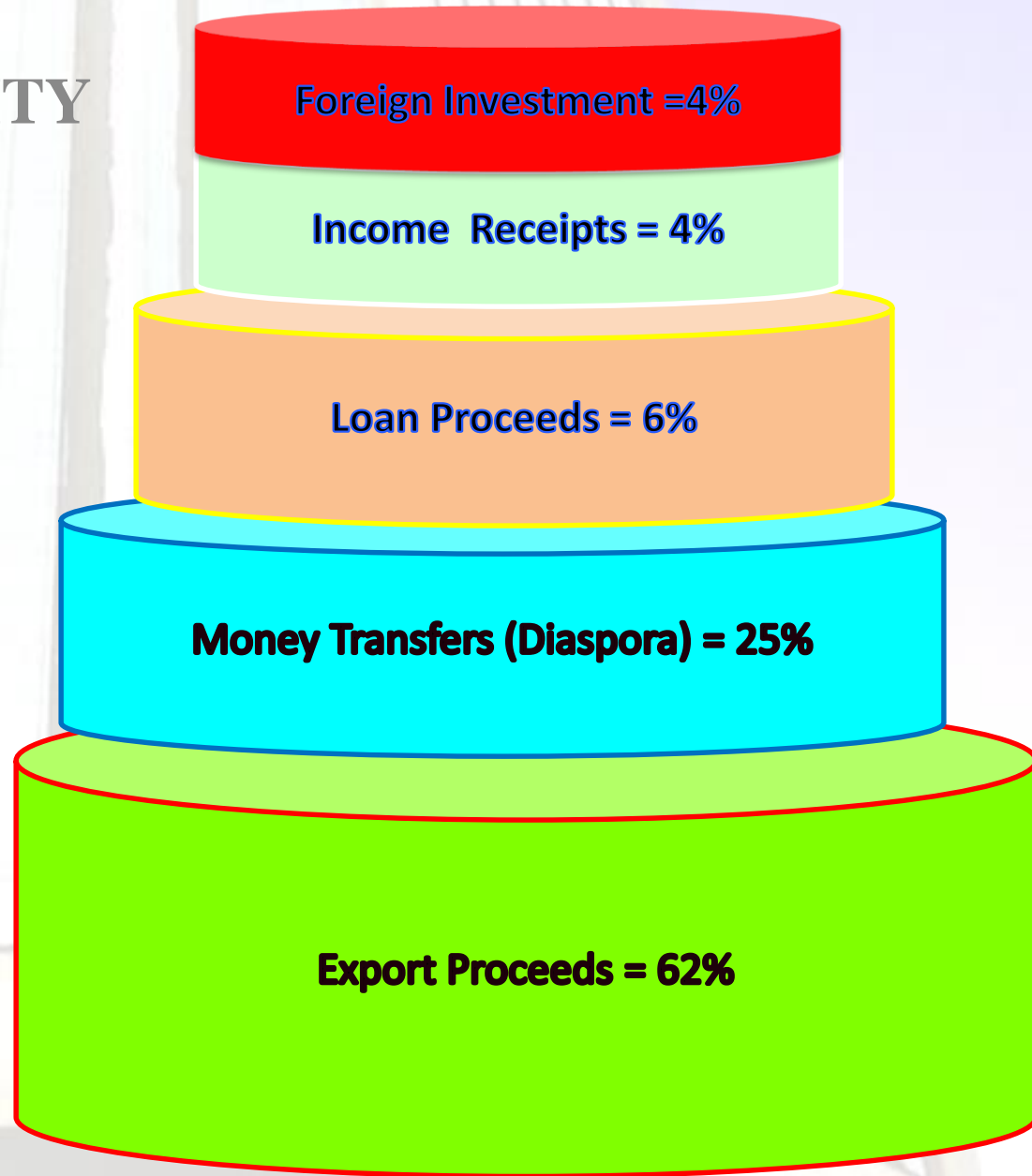
BACKGROUND TO THE CASH CRISIS



BACKGROUND TO THE CASH CRUNCH

SOURCES OF LIQUIDITY

□ Current cash crunch began as a liquidity challenge since the advent of multi-currency regime (MCR) in 2009





BACKGROUND TO THE CASH CRUNCH

- ❑ The liquidity challenge evolved into a full cash crisis by end 2015

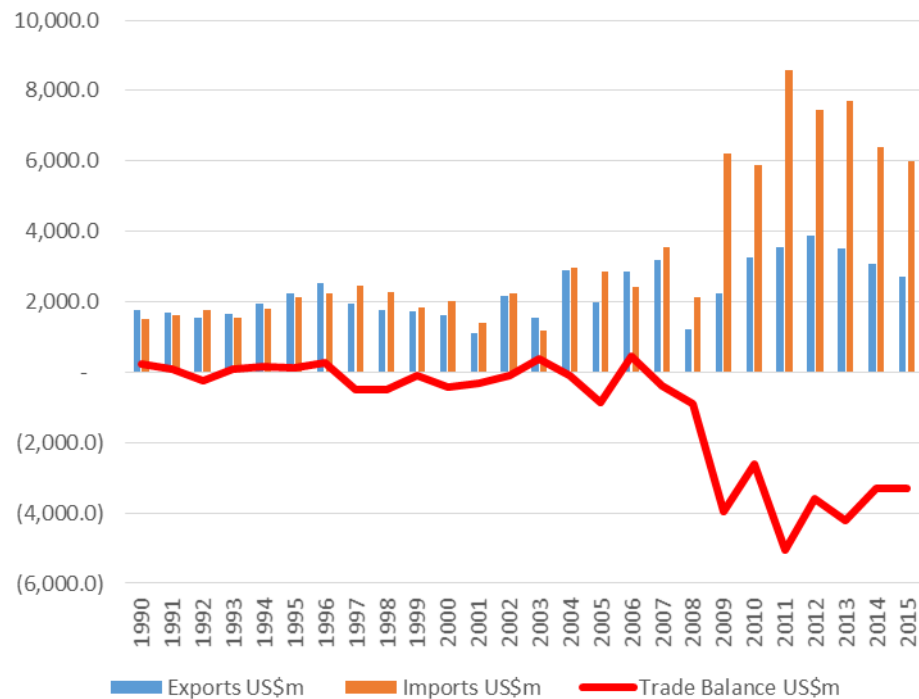
- ❑ why shortage of cash?
 - twin deficits (*trade imbalances and fiscal deficits*)
 - Low external inflows
 - Falling commodity prices
 - Overreliance on USD for all transactions
 - Low confidence in the economy



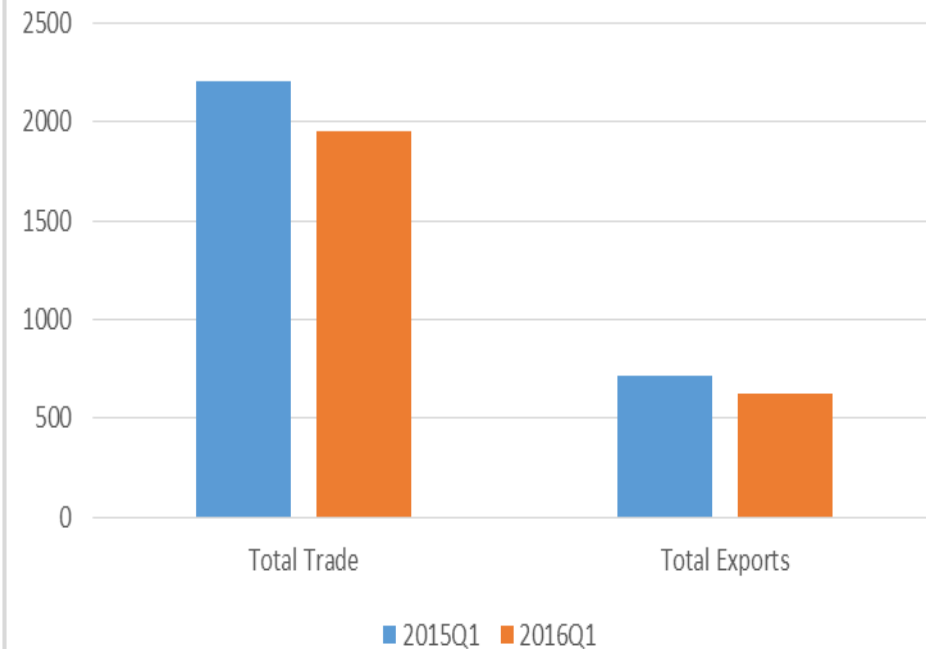
Unsustainable trade deficit and shrinking trade

- Exports the main source of liquidity (cash):
 - yet increase in exports much slower than increase in imports
 - Cumulative trade deficit of \$26bn since 2009 (average: \$3.7bn a year)
- Overall, Zimbabwe trading less

Zimbabwe Exports and Imports (US\$m)



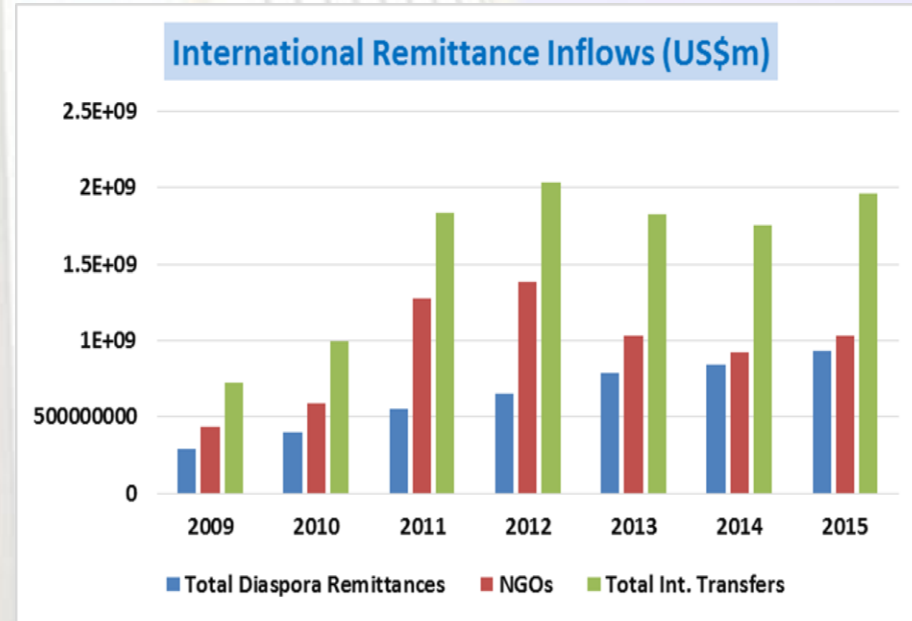
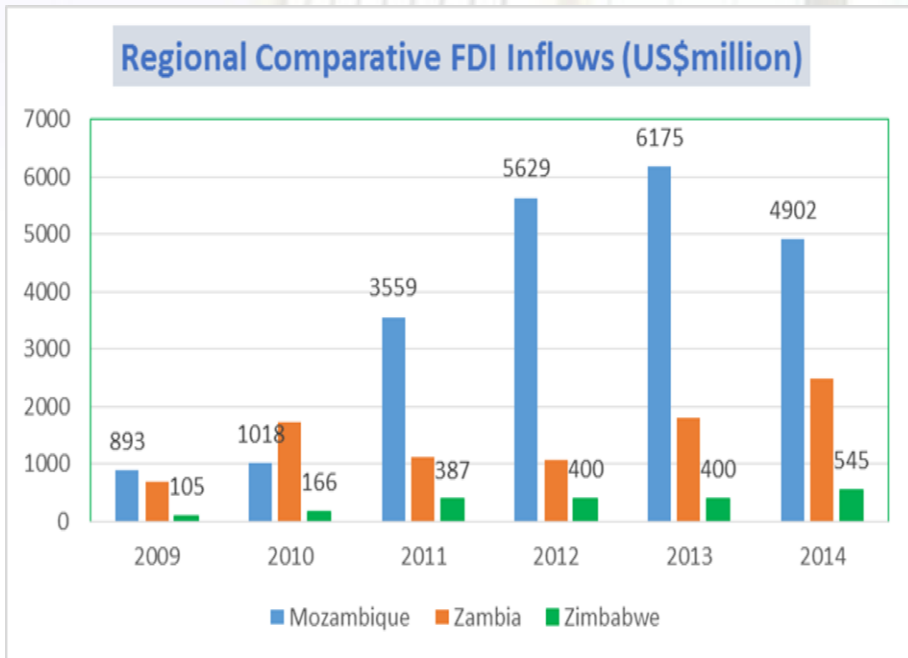
Merchandise Trade (US\$m)





Mixed picture from other sources of liquidity

- Below potential FDI Inflows
- Uncertainty main cause: investment in fixed assets: it takes time to build; and is wholly or partially irreversible



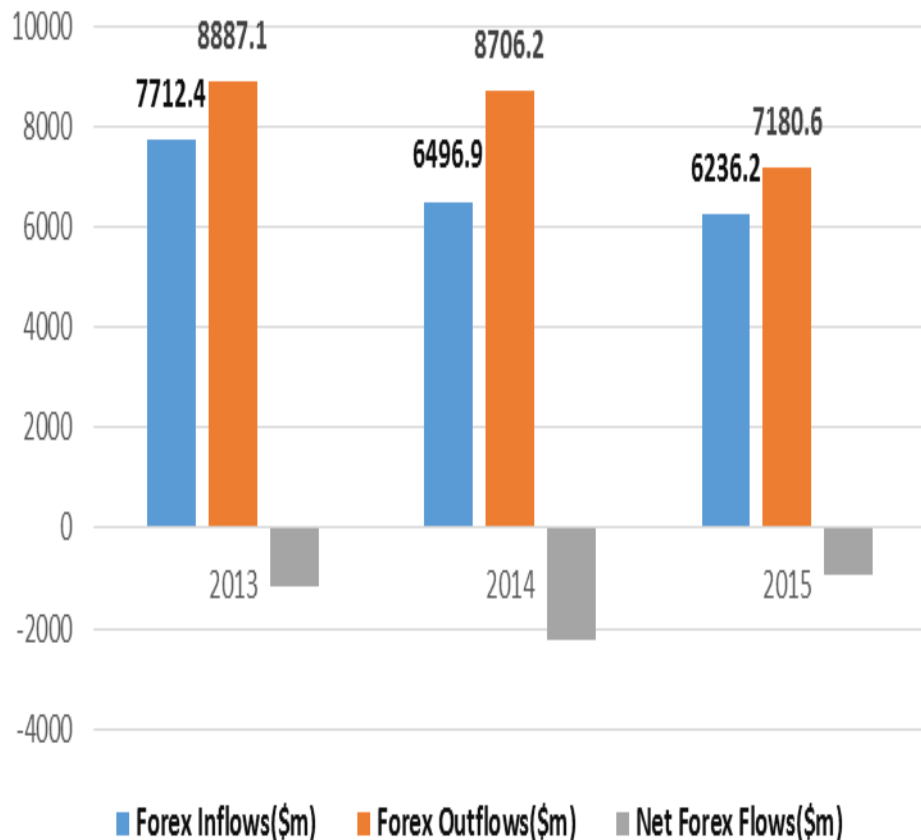
-but Diaspora inflows improving



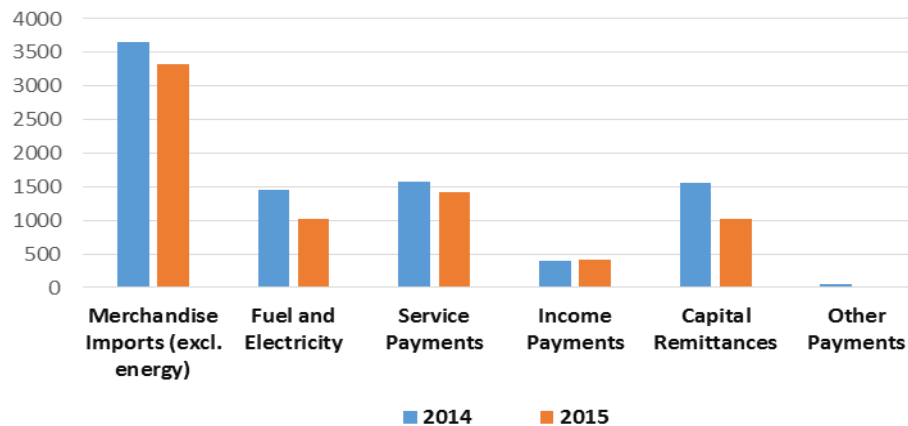
Low External Inflows

- Foreign exchange inflows not sufficient to cover large outflows
- Imports dominated by consumption goods

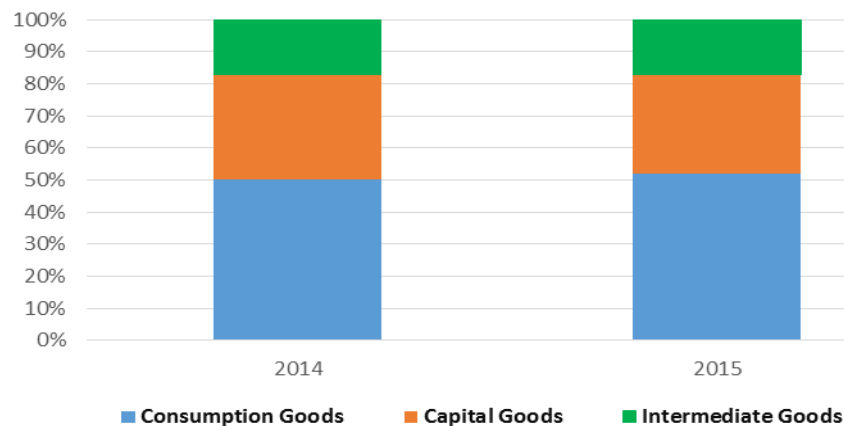
Supply and Demand of Foreign Exchange (\$m)



Demand for Foreign Currency (US\$m)



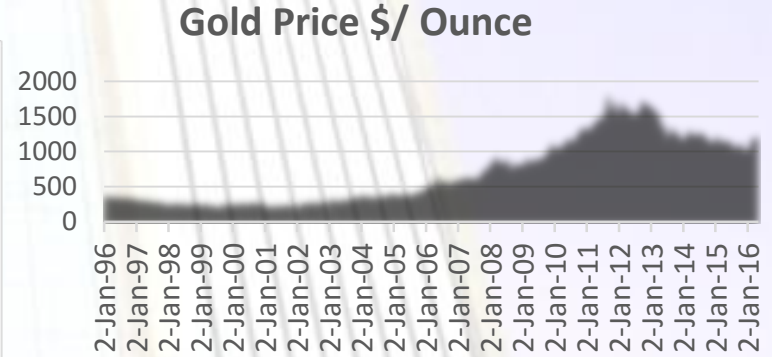
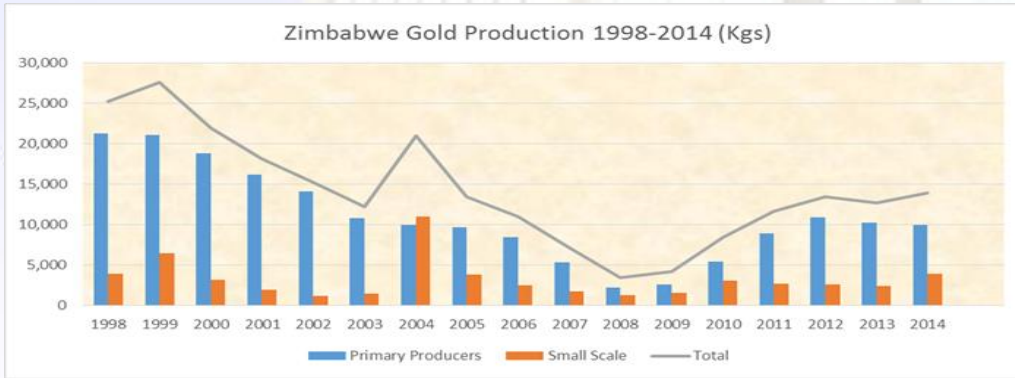
Share of Merchandise Imports Payments



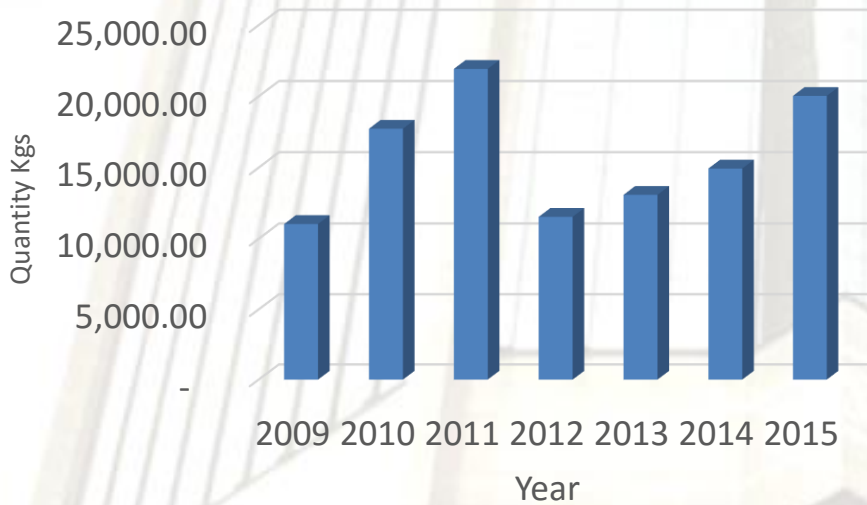


Fall in Commodity Prices

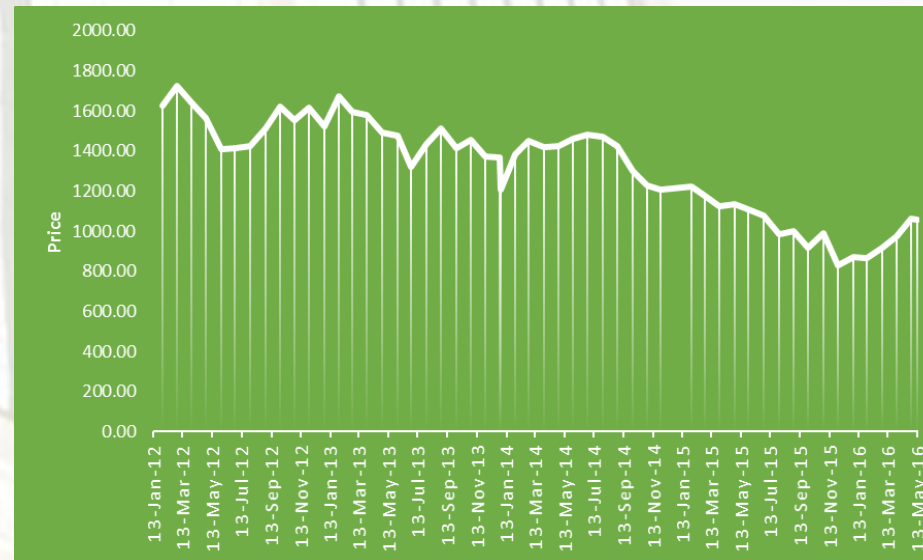
Zimbabwe is heavily dependent on its natural resources, in particular, minerals



Historical Platinum Production



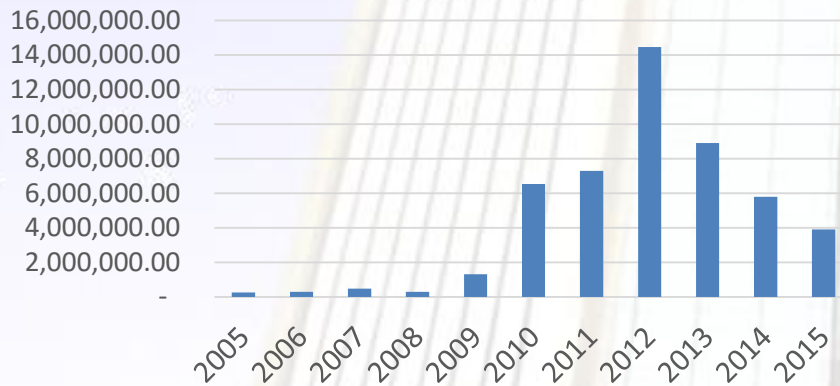
Platinum Price Developments 2012-2016





Fall in Commodity Prices

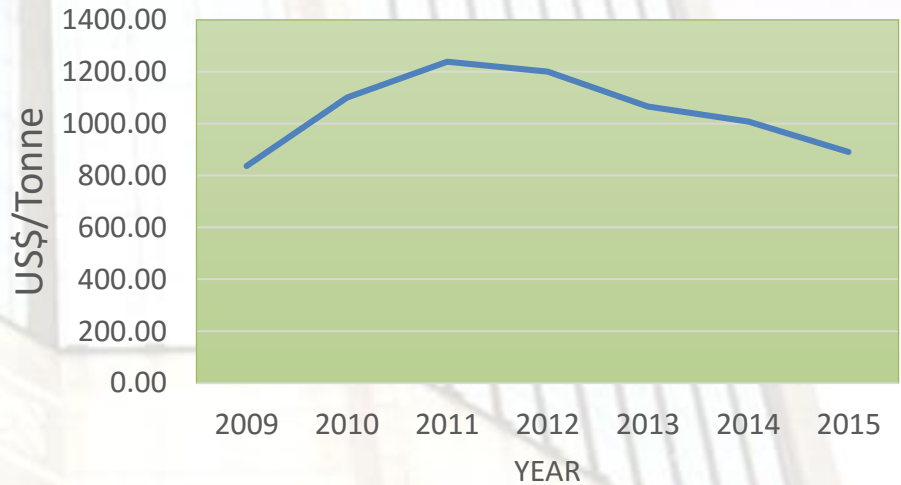
Diamond Production (2005-2015) Volume (carats)



Diamond Price-1995-2015 (US\$/carat)



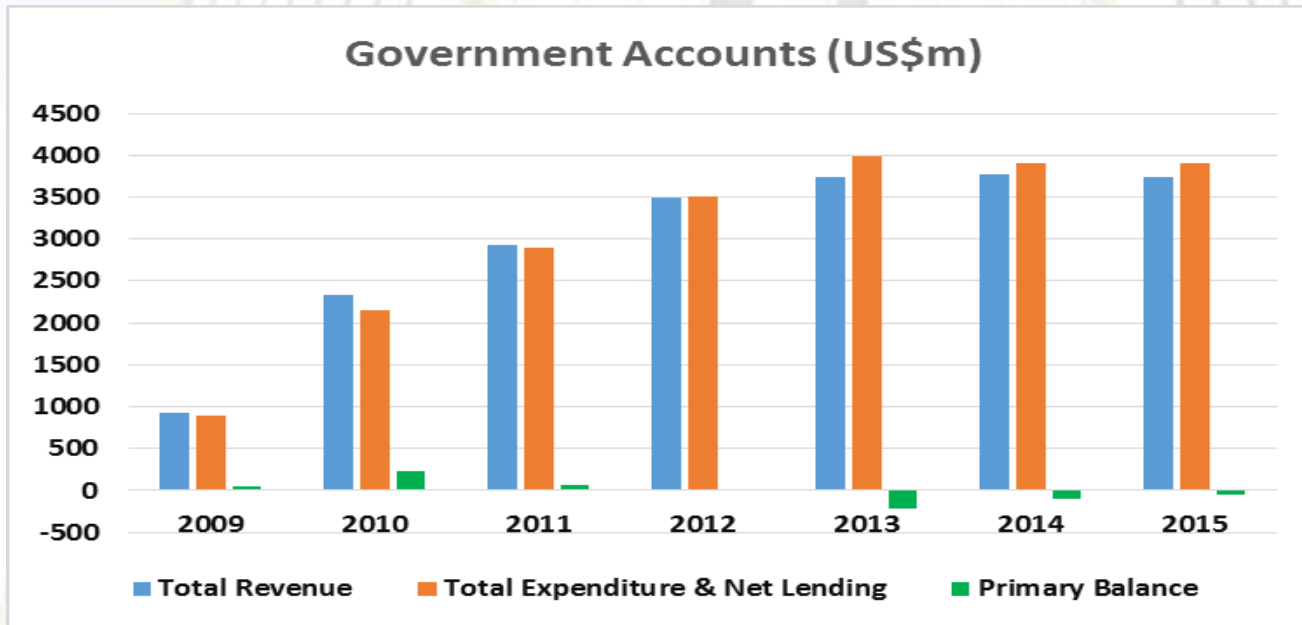
Ferrochrome Production 2009-2015 (Mill. Kg)





Fiscal Pressures

- Sluggish revenue performance.
- Challenges in reducing fiscal expenditures, esp. employment costs (but some progress is being made)
- Growing public debt.





Excessive dollarization

- Zimbabwe increasingly relying on the US dollar. Other currencies in the MCR basket no longer in use.

Currency	2009	2013	2014	2015	2016
USD	49%	50%	60%	70%	95%
ZAR	49%	50%	40%	30%	5%
Other	2%	-	-	-	-

- USD is a global reserve currency—attractive to all manner of agents
- Zimbabwe almost an ATM of the region
- Need to restore the Multi-currency system



Persistent Confidence deficit

- Lack of confidence is the elephant in the room → TRUST deficit
- Arises for perceived policy inconsistency and opaqueness
- Apparently confusing messages from policy makers
- Tends to have a deleterious impact on current and future investment decisions
 - Nature of investment in fixed assets: it takes time to build; and is wholly or partially irreversible



Impact of the Cash Crunch

- Pressure on commercial bank Nostro balances to meet international obligations—e.g. delays in acquitting invoices
- Credit facilities for importers now reduced or removed completely
- May lead to shortages if not well managed
- Long queues at banks to withdraw cash



Policy Responses

- Policy measures of May 4, 2015 aimed at
 - Addressing the immediate cash crisis
 - Providing support to the main source of cash
- Accelerate other on-going measures to bring sanity to the Zimbabwean economy, v.i.z
 - Accelerate the re-engagement process, esp. payment of arrears with IFIs
 - Implement an economic recovery and transformation programme



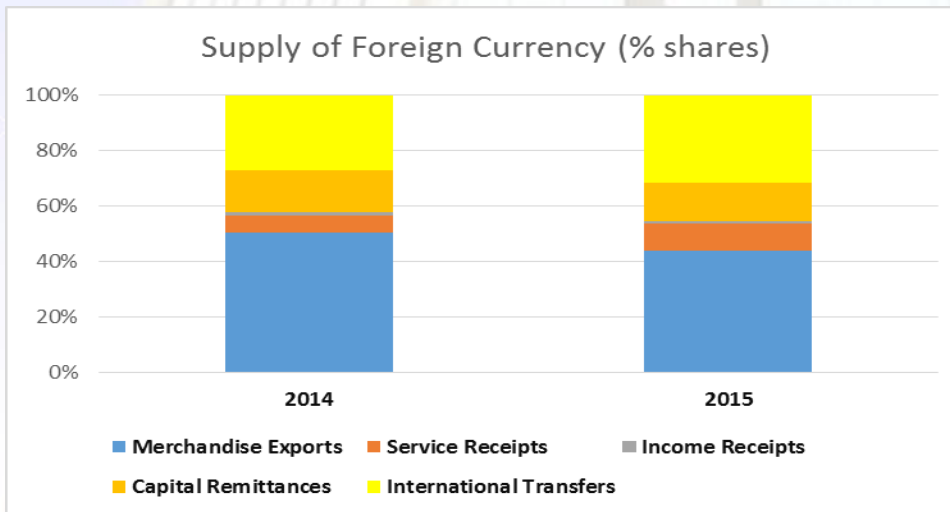
Addressing the immediate cash crunch

- Set withdrawal limits of US\$1,000 per day
- Promote use of plastic money and installation of POS machines
- Limit of traveler's cash threshold to US\$1,000 per trip
- Reduction of lending rates from an upper limit of 18% to 15%--with more planned reductions in bank charges
- Special account to promote a savings culture



Supporting the main source of liquidity (cash)

- Exports are the main sources of liquidity

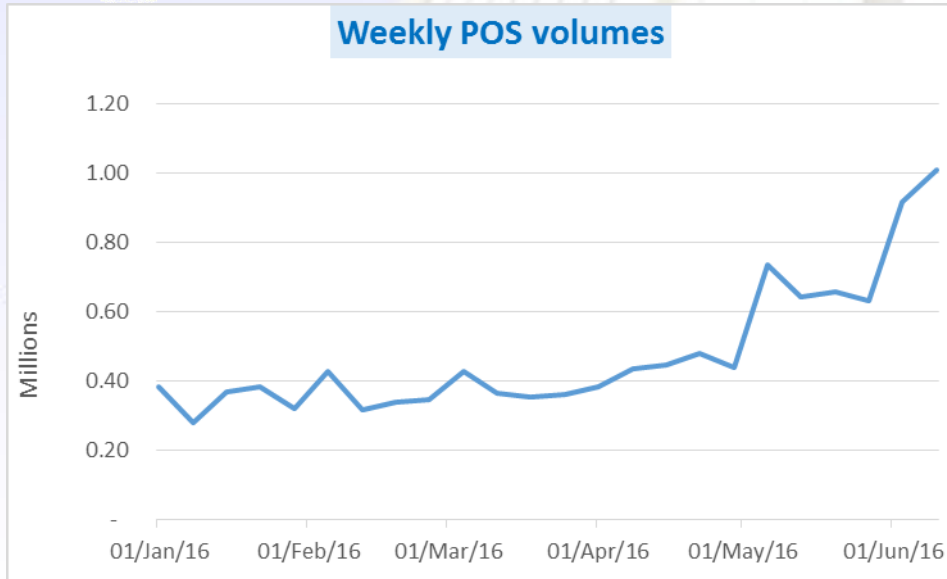


- Issue Bond Notes that are backed by a US\$200m Afreximbank facility as an export incentive to enhance competitiveness, productivity and export growth
- Export incentive is of up to 5% of an exporter's proceeds
- The multicurrency system to remain operational

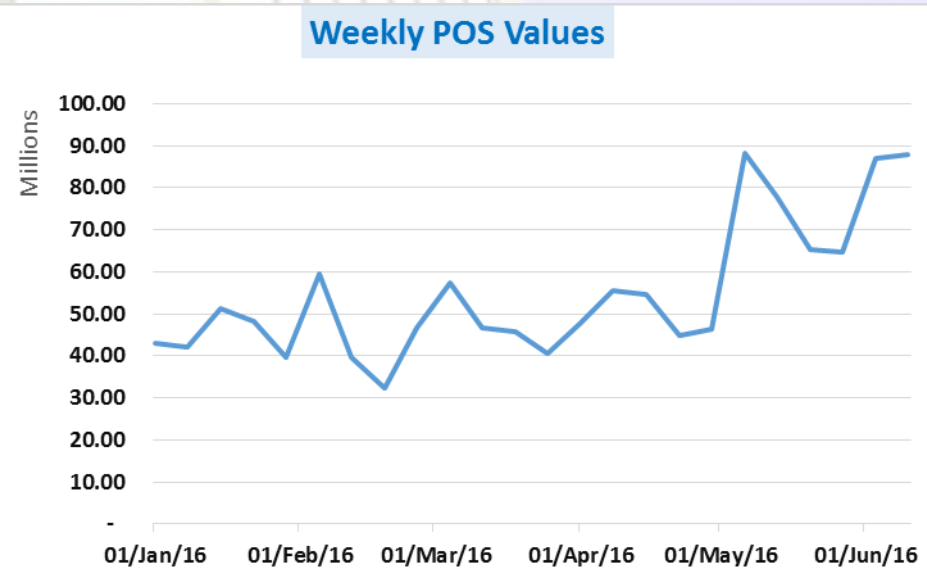


Increased use of plastic money

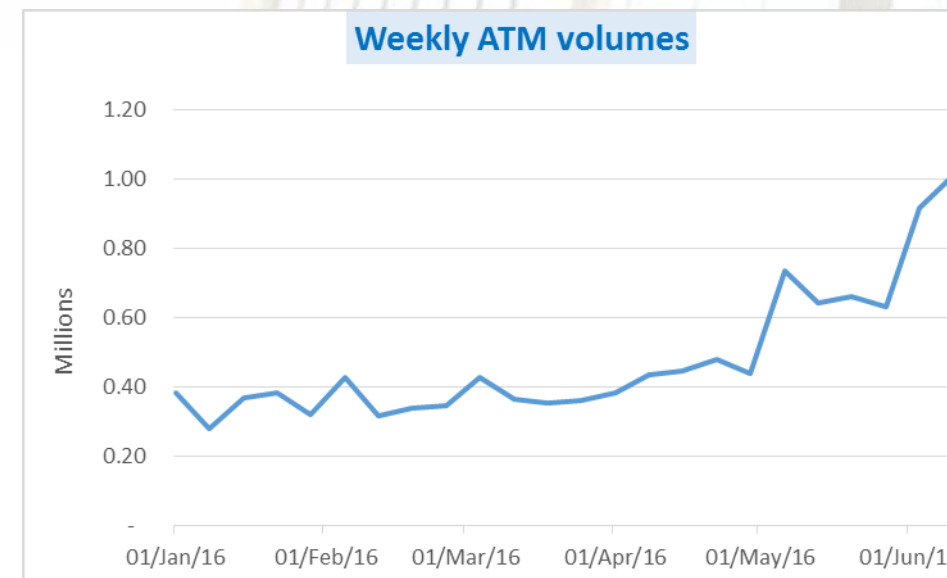
Weekly POS volumes



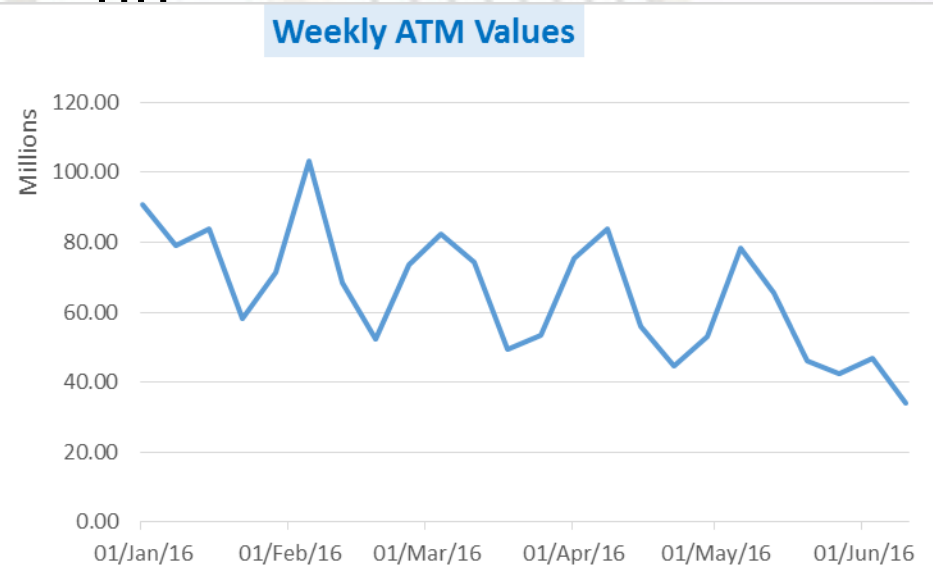
Weekly POS Values



Weekly ATM volumes



Weekly ATM Values





MEDIUM TO LONG TERM STRATEGIES



Clearance of Arrears

- Zimbabwe has a outstanding arrears with IFIs of US\$1.826bn
 - AfDB US\$601m
 - IDA US\$218m
 - IBRD US\$896m
 - IMF US\$111m
- Strategy involves the following
 - Bridge finance to clear AfDB and IDA outstanding arrears
 - Own resources to clear outstanding arrears to the IMF
 - Long-term loan to IBRD arrears



MEDIUM TO LONG TERM MEASURES

- The country's macroeconomic imbalances will be addressed through an **Economic Transformation Programme**, drafted by Zimbabwe.
- The programme will support the reform measures that the Government has already started implementing under the recently completed International Monetary Fund (IMF) Staff Monitored Program (SMP).
- The Economic Transformation Programme is, premised on the country's developmental aspirations as embodied in the key objectives of the Zimbabwe Agenda for Sustainable Socio-economic Transformation (ZIMASSET) and the Sustainable Development Goals (SDGs).



KEY PILLARS OF THE TRANSFORMATION PROGRAMME

❑ Five key pillars

- ✓ Implementing public sector reforms;
- ✓ Governance of State Owned Enterprises (SOEs);
- ✓ Enhancing agricultural transformation and productivity;
- ✓ Promoting private sector growth and competitiveness; and
- ✓ Financial Sector Reforms.



KEY PILLARS OF THE TRANSFORMATION PROGRAMME

□ Pillars supported by 3 cross cutting objectives of:

- ✓ maintaining macroeconomic and financial stability,
- ✓ financial inclusion, gender and youth employment, a
- ✓ sustained engagement and dialogue with international development partners.



KEY DELIVERABLES UNDER THE PILLARS

- i. Improving Public Sector Reforms**
 - Fiscal Consolidation;
 - Reduction in employment costs
 - Improve Fiscal Sustainability;
 - Strengthening Public Financial Management;

- ii. Governance of State Owned Enterprises**
 - Restructuring State-Owned Enterprises (SOEs).

- iii. Enhancing Agricultural Transformation and Productivity**
 - Security of Tenure;
 - Irrigation Development;
 - Enhance Food Security and Social Protection; and
 - Establish Market Linkages.



KEY DELIVERABLES UNDER THE PILLARS (cont'd)

i. Promoting Private Sector Growth and Competitiveness

- ▶ Ease of Doing Business;
- ▶ Provision of adequate infrastructure;
- ▶ Private Partnership Arrangements; and
- ▶ Promoting the Growth of SMEs.

ii. Financial Sector Reforms

- ▶ Corporate Governance;
- ▶ Enhance Supervision of Banks



Thank You