Addressing Zimbabwe’s Current Economic Challenges

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OUTLINE

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• Policy Responses
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INTRODUCTION

Current economic challenges

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Forex Inflows ($m)</th>
<th>Forex Outflows ($m)</th>
<th>Net Forex Flows ($m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>8871.1</td>
<td>7712.4</td>
<td>1158.7</td>
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<tr>
<td>2014</td>
<td>6496.9</td>
<td>6236.2</td>
<td>260.7</td>
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<tr>
<td>2015</td>
<td>8706.2</td>
<td>7180.6</td>
<td>525.6</td>
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**Demand for Foreign Currency (US$m)**

- Merchandise Imports (excl. energy)
- Fuel and Electricity
- Service Payments
- Income Payments
- Capital Remittances
- Other Payments

**Share of Merchandise Imports Payments**

- Consumption Goods
- Capital Goods
- Intermediate Goods
Zimbabwe is heavily dependent on its natural resources, in particular, minerals.

**Gold Price $/Ounce**

**Platinum Price Developments 2012-2016**

**Historical Platinum Production**
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.

![Government Accounts (US$m)]
Excessive dollarization

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

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<tbody>
<tr>
<td>USD</td>
<td>49%</td>
<td>50%</td>
<td>60%</td>
<td>70%</td>
<td>95%</td>
</tr>
<tr>
<td>ZAR</td>
<td>49%</td>
<td>50%</td>
<td>40%</td>
<td>30%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
<td>-</td>
<td>-</td>
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</table>

- 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

![Supply of Foreign Currency (% shares)](chart)

- 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
Zimbabwe has an 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