

ZIMBABWE

Harare (gtai) – In Zimbabwe, it's a time of change. The new government headed by President Emmerson Mnangagwa wants to improve the conditions for foreign investors. However, the economic recovery of the country – plagued by a long crisis – is likely to take many years. The government has to build new relationships with international donors and combat the lack of foreign exchange. Of crucial importance is a free and fair election process in 2018.

ECONOMIC PROSPECTS

According to the Economist Intelligence Unit (EIU), Zimbabwe's economy is expected to grow by 3.8% in 2018. Observers expect a sustained economic upturn. EIU projects average GDP growth of 4.8% per year between 2018 and 2022.

This optimism is based on recent political change in the country. Since long-time ruler, Robert Mugabe resigned in November 2017 under pressure from the military, new economic prospects are beginning to emerge.

The mantra of the new president is 'Zimbabwe is open for business' and his reforms are designed to channel much-needed investment into the run-down country.

An important step is the change made to Mugabe's indigenisation policy, which required foreign investors to divest at least 51% of their shares to local partners. From now on, these requirements will apply only to platinum and diamond mining.

However, the government's scope for economic reconstruction is limited. In 2017, the budget deficit was 9.8%, and about 90% of government revenue was consumed by wages for public servants. Zimbabwe desperately needs access to fresh funding but after the long period of isolation during the Mugabe era, it has been cut off from fully accessing international financial markets.

New loans from international creditors will only be available once certain criteria have been met. An agreement on the settlement of outstanding loans is urgently needed. Zimbabwe is indebted to the World Bank and African Development Bank to the tune of 1.8 billion USD. Another 4 billion USD is owed to the Paris Club. Overall, foreign debt amounts to about 11 billion USD (around 63% of GDP).

Another important requirement is the free and fair conduct of the elections scheduled for 30 July 2018. Past ballots were overshadowed

by violent conflicts and allegations of manipulation. In addition, future aid will be linked to comprehensive structural reforms. These include cuts in the bloated public sector, a reduction in the budget deficit, rehabilitation of the 78 loss-making state enterprises, mechanisms to fight corruption and administrative improvements.

According to the EIU, if the government tackles sustainable transformation, it is possible for Zimbabwe to attain double-digit growth in the medium term.

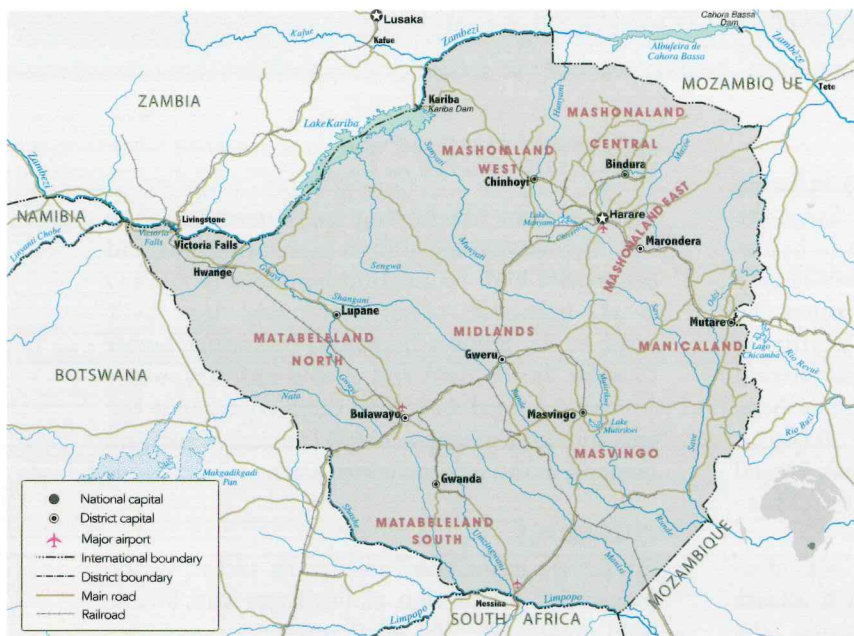
INVESTMENTS

Despite positive changes in the country, a rapid investment boom is unlikely. Before making commitments in Zimbabwe, foreign companies will be watching closely to see how committed the new government is to implementing reforms. There is still scepticism here.

Despite the promised fiscal consolidation, increases in public sector salaries are likely ahead of the elections. Mugabe's hostile policies with land expropriation and often unclear legal positions, for example in the indigenisation regulations, have greatly destroyed investor confidence that needs to be rebuilt.

The Zimbabwe Investment Authority (ZIA) hopes to approve 2.5 billion USD for new investment projects in 2018 (2017: 2.3 billion USD) but it is uncertain whether and when these projects will be implemented. The inflow of FDI has recently been weak and, according to the Central Bank, is expected to have amounted to only 235 million USD in 2017 (2016: 343 million USD).

The mining sector is likely to attract investment. There are already new mines planned for the mining of lithium. Many existing mines have also announced capacity expansions.



Area	390 757 km ²
Population	16.5 million (2017)
Population growth	2.3%
Official language	English
Capital	Harare
GDP growth	3.4% (2015)
President	Emmerson Mnangagwa
Ease of doing business	159/190
Currency	US dollar

Source: data.worldbank.org; gtai

ECONOMIC DATA

Indicator	2016	2017	Comparative data Germany 2017
GDP (nominal, billion USD)	16.1	17.5	3,686.7
GDP per capita (nominal, USD)	1,111	1,176	44,595
Population (millions)	14.5	14.8	82.7
Exchange rate*	-	-	-

*In February 2009, five currencies were designated as 'official means of payment' – US dollar, rand, euro, pound sterling and pula – although they did not have the legal tender status of the (de facto abolished) Zimbabwean dollar. The US dollar was declared the main currency of the multi-currency system on 27 April 2010. In January 2014, 'official means of payment' were extended to yen, renminbi yuan, Indian rupee and Australian dollar. On 11 June 2015, the Reserve Bank of Zimbabwe issued a press release announcing demonetisation of the Zimbabwe dollar which took place from 15 June to 30 September 2015.

Sources: IMF; Federal Office of Statistics; German Bundesbank

FOREIGN TRADE (USD MILLIONS)

	2016	2017	% change
Imports	5,351	5,640	5.4
Exports	3,366	3,581	6.3
Balance of trade	-1,985	-2,059	

Source: EIU

SELECTED MAJOR PROJECTS

Project	Investment amount (USD)	Project Status	Comment
Batoka Gorge Hydropower station	6,000 million	Planning, implementation through a public-private partnership. General Electric (GE) and China Power announced joint interest	Construction of a 2,400 MW hydropower plant on the Zambezi River as a joint project with Zambia
Expansion of the Hwange coal power plant	1,100 million	Planning, execution by Sinohydro	Construction of blocks 7 and 8 with 300 MW each
Zimbabwe National Railways recapitalisation program	400 million, planned increase to 2,000 million	Execution of Phase 1 with the Diaspora Infrastructure Development Group and Transnet	Renewal of the rail fleet, track systems, signalling technology
Karo Platinum mine	4,200 million	Planning, construction of phase 1 until 2020	Construction of a platinum mine by Karo Resources with a production of up to 1.4 million ounces per year
Mupani Platinum mine	264 million	Planning, construction until 2025	Construction of a platinum mine by Zimplats with a capacity of 90,000 ounces per annum
Gokwe North coal power plant	1,200 million	Planning	Construction of a coal power plant for 700 MW in the first phase and connected mine by RioZim, later expansion to up to 2,800 MW
Zimbabwe-Mozambique-South Africa Power Line	244 million	Planning, completion planned until 2021	Construction of a 1,000 km long power line, financed by Development Bank of Southern Africa
Zico Steel revitalisation	1,000 million	Planning	Revitalisation of Zisco Steel Mill for annual production of 1 million tons by Chinese R & D
National Communications Towers and Base Stations Implementation Programme	250 million	Planning	Expansion of mobile communications infrastructure through the Postal and Telecommunications Regulatory Authority of Zimbabwe (POTRAZ)
Robert Mugabe International Airport	153 million	Planning, financing by China Eximbank	Modernisation and expansion of the airport in Harare

Sources: gtai, Press reports

SWOT ANALYSIS

Strengths	Weaknesses
Well educated population.	Poor macroeconomic climate.
Remnants of the once broad industrial base are still available.	Low foreign direct investments due to indigenised politics.
	Inefficient administration and widespread corruption.
	Weakened purchasing power.
	Inland and far from ports (Beira in Mozambique, Durban in South Africa)
Opportunities	Threats
Abundant mineral resources (platinum, gold, chrome, iron ore, diamonds, coal).	Massive fiscal imbalance.
High demand for investments in infrastructure.	Preparedness for structural reforms as a prerequisite for new international loans is still unclear.
Demand for equipment to revive industrial base.	Poor infrastructure (energy, water, transport).
Great potential in agriculture.	Dollarisation undermines competitiveness.
Promising tourism sector.	Great dependence on mining and tobacco exports.

CONSUMPTION

The consumer climate in Zimbabwe is suffering because of a massive shortage of cash. Since the abolition of the national currency due to hyperinflation in 2009, the economy has been largely based on the US dollar. However, because the USD notes are hoarded or invested in paying for imports the country's ATMs are almost always empty. When cash is available, long queues form, but withdrawals are usually limited to 50 USD.

To remedy this, the central bank has issued promissory notes, so-called bond-notes. These are not recognised abroad.

Many transactions are conducted via electronic systems such as EcoCash, which allows payments via mobile phones. Outside the formal retail sector, bond-notes and systems such as EcoCash are discounted by 30 to 40% in the absence of cover. Restaurants and retailers sometimes offer discounts when payment is made with USD notes. For 2018 the central bank wants to import dollar notes to the value of 400 million USD.

About 60% of the economy is based in the informal sector and unemployment is about 90%. Nevertheless, supermarkets in Harare such as Pick n Pay, OK and Choppies operate many outlets and report good sales increases.

FOREIGN TRADE

The liquidity crisis has also left its mark on Zimbabwe's foreign trade. Companies must wait a long time for central bank foreign exchange allocations and have great difficulty importing raw materials and spare parts. Mining companies report that expansion plans are in jeopardy as imported machinery deliveries cannot be paid. The central bank makes currency allocations according to a strict priority list.

In terms of both trade and current accounts, Zimbabwe will continue to report high deficits.

Dollarisation undermines the competitiveness and export opportunities of the local industry, because the exchange rate against the US currency being far too strong for Zimbabwe. At the same time, the import of many consumer goods from South Africa is attractive. The government is therefore trying to protect domestic businesses using import restrictions on certain goods, such as food, thereby also saving much-needed foreign exchange.

Much hope is placed on a rapid improvement in mining production, which contributes around 70% of export earnings from platinum, gold and chrome. An improved foreign exchange situation should in turn facilitate imports of urgently needed equipment.

SECTOR SURVEY

Many sectors are hoping for a recovery. The mining industry is playing a pioneering role, and can expect high production increases in coming years. Improved conditions could lure back some of the farmers displaced by former leader Mugabe. In the food and textile industry, many companies need to renew their equipment but lack foreign exchange. There is massive pent-up demand in the infrastructure sector.

CHEMICALS

Zimbabwe has a small chemicals sector, which focuses on production of fertilisers and household chemicals. The local production capacity for fertiliser is around 1.2 million tons a year, which can meet local demand. Manufacturers include Zimbabwe Fertiliser Company and Sable Chemicals.

New investments could flow into developing Zimbabwe's coal-bed methane which is estimated at a minimum of 765 billion cubic metres. Shangani Energy, the first company to start extracting, has spent around 120 million USD on two wells to power a 12-megawatt pilot plant by 2020. In the long term, more than 700 million USD will be invested.

ENERGY

In the winter of 2018, peak energy demand of around 1,900 megawatts is expected, which the country cannot produce itself. Often there is a deficit of up to 400 megawatts, which is covered by imports from South Africa and Mozambique. Zimbabwe Power Corporation (ZPC) plans to expand its Hwange coal-fired power plant by 600 megawatts with help from Sinohydro of China.

Three solar photovoltaic (PV) power plants, each with a capacity of 100 megawatts, will also be built with Chinese partners. The mining company RioZim also plans to build a coal-fired power plant in Gokwe North (700 megawatts). Makomo Resources (660 megawatts) and Liberation Mining (100 megawatts) are also planning coal-fired power plants. Makomo Resources also wants to tackle a solar PV system (100 megawatts).

CONSTRUCTION

According to industry experts, the construction industry should grow by about 4% in 2018. There is great pressure to act particularly in the infrastructure sector. The condition of the road network is poor in many parts. The investment backlog is about 5.5 billion USD, with the Zimbabwe National Road Administration

(Zinara) spending just under 200 million USD on road projects in 2018. However, as soon as Zimbabwe has access to new loans, numerous projects are likely to be initiated. These include repair of the Bulawayo-Victoria Falls Highway (200 million USD) and the Harare-Bindura Highway (20 million USD). Geiger International (Austria) was awarded the contract for the extension of the Beitbridge-Harare Highway at a cost of 984 million USD. However, the government wants to reassign the contract because of time delays.

HEALTH

The health system of Zimbabwe has lost much of its substance in recent years. The medical equipment is outdated, there is a shortage of medicines and many skilled professionals have emigrated. Health spending in 2017 was approximately 860 million USD and is projected to increase to 960 million USD by 2019, according to BMI Research. Of this, only 33% is in the public sector. In early 2018, the government announced plans to build ten new hospitals to be funded

with Chinese loans. Private sector institutions, as potential buyers of medical technology, can be consulted via the Private Hospitals Association of Zimbabwe (PHAZ). The market for pharmaceuticals is expected to grow from 413 million USD in 2017 to 493 million USD in 2019.

AGRICULTURE

Since the expropriation of 6,000 white-owned farms, Zimbabwe's agriculture is characterised by small farms. In years with good rainfall, these can almost attain the crop yields of tobacco and corn from the heyday of Zimbabwean agriculture. The new government also wants to rebuild commercial agriculture and offers farmers the opportunity to lease agricultural land for 99 years. This should make access to credit possible again. According to reports, 600 commercial farmers have returned to Zimbabwe since the beginning of 2018. The market for agricultural machinery should benefit in the long term. The US manufacturer Agco plans to invest in a model farm. Around 430 million USD are needed nationwide for the rehabilitation of irrigation systems.

MINING

Mining companies in Zimbabwe are optimistic about the future. Gold production is expected to increase by 13% in 2018 to 30 tons. Operators with expansion plans include Metallon and Caledonia Mining. The platinum producer Zimplats is to complete its Mupani Mine by 2025. Coal production is expected to increase to 8 million tons by 2019 (2017: 2 million tons). The companies Hwange Colliery, Makomo Resources and Liberation Mining are expanding their mines. The Zimbabwe Consolidated Diamond Company (ZCDC) plans to invest a total of 400 million USD in diamond mining by 2020. Development of lithium mining is under-way: Prospect Resources and Premier African Mining are already pursuing advanced projects in Zimbabwe.

FOOD

Food production is at the heart of Zimbabwean manufacturing and is still a diverse sector. Large companies such as Nestlé, Unilever and Innsco continually invest in their production sites. Varun Beverages is building a Pepsi bottling to the value of 40 million USD. Many other companies, such as Delta Beverages, Schweppes, United Refineries or Blue Ribbon, report recent increases in production volumes. The biggest obstacle is a lack of foreign exchange. As soon as the situation improves, the sector should invest more in the renewal of production facilities. Many machines in small and medium-sized businesses are over 20 years old. Expansion plans such as new dairy plants by Dendairy have also been announced. Coca-Cola plans to invest 65 million USD in Zimbabwe over the next three years.

TEXTILES

Like other sectors, the textile industry is trying to get back on its feet. Merlin resumed operations in 2018, but needs 30 million USD to procure new, modern equipment. Currently very old German technology is being used. A cash injection from the central bank, has enabled David Whitehead to begin producing again. Bata manufactures three million pairs of shoes a year and plans to grow by expanding its retail network. According to industry representatives, the leather industry needs around 100 million USD for revitalisation. However, the central bank can only provide 15 million USD for 2018. Wet Blue Industries Tannery is among the companies seeking recapitalisation.

METALS

The Zimbabwe Iron and Steel Company (Zisco) was once the country's pride and as the largest steel producer in Africa a symbol of Zimbabwe's industrialisation. Due to the economic crisis, production was discontinued in 2008. The plants are ailing and only 15% operational. With the Chinese R & F, the government hopes to have found an investor for the revitalisation of the steel mill. With an initial investment of 1 billion USD an annual production of 1 million tons is to be reached again. However, since domestic demand is only around 300,000 tons a year, export markets will have to be opened up. Chrome producer Zimasco, with the help of shareholder Sinosteel, intends to build three new smelters and increase production from 120,000 to 300,000 tons a year over the next five years.

ENVIRONMENT

Zimbabwe's water infrastructure has been neglected in recent years as a result of the economic crisis. Systems are ailing and taps are often dry. In Harare, the wealthy use their own boreholes. Unpurified wastewater poses a health hazard in the cities. Harare alone needs 1.1 billion USD to modernise the municipal water network in the long term. The Diaspora Infrastructure Development Group (DIDG) has plans to provide Harare with between 300 and 500 million USD in water infrastructure. In Bulawayo, the second largest city, the investment required is estimated at 1 billion USD. African Development Bank is to provide 34 million USD in 2018.

ICT

Zimbabwe is comparatively well positioned in the field of telecommunications infrastructure. In 2017, there were a total of 14 million mobile customers – a coverage rate of almost 103%. Internet access is about 51%. Mobile data volume increased by around 21% in 2017. The providers Econet, NetOne and Telecel should therefore continue to invest in their networks.

Market leader, Econet, is also active in other areas such as mobile banking and e-commerce and increased its investment spending in the first half of 2018 by 336% year-on-year to 67 million USD.

One focus is the expansion of the LTE network. Dark Fibre Africa and TelOne also plan to spend around 60 million and 98 million USD on their broadband infrastructure in coming years. ■