

1. Introduction

1. The macro-economic environment is weighed down by tight liquidity; lack of fiscal space by government; deflation and high balance of payment deficit. There is low aggregate demand and high default levels among borrowers plunging the country into a debt problem. Government is failing to meet its revenue targets due to: underperformance of cooperate tax and royalties as mining companies are negatively impacted by low commodity prices. The formal employment levels continue to decline as country's economy is increasingly becoming informal. Zimbabwe's growth prospects are below most of the SADC counterparts in 2016, inflation remains in the negative and deposits continue dominated by transitory short term deposits which are not suitable for infrastructure development.

2. World Economy

2.1 Overview of the growth prospects in SADC

2. The economy of Malawi is expected to grow by 4.5% in 2016; Mozambique- 6.5%; Botswana-3.2%; South Africa-1.3%; Zambia – 4%; Angola- 3.6%; Tanzania-7%; Kenya-6.8%; Namibia- 5%; Swaziland- 0.7%; Seychells- 3.7%; Mauritius- 3.8%; Madagascar- 4.6%; Lesotho- 2.9%; and Democratic Republic of Congo- 7.3%. *Zimbabwe's expected 2.7% growth is one of the lowest in SADC region in 2016.*

2.2 Overview of Africa, America, Asia and Europe

The African economies are also experiencing slowdown in economic growth due to energy shortages, lower commodity prices, high inflation rates, high debt levels, unstable currencies and slow growth in China. The Chinese economy is expected to grow by an average of 6.5% for the rest of the decade beginning 2016. China economy is being dragged by lower demand for its exports; slackening real estate demand and general lower global demand. China's reserves declined to US\$ 3.3 trillion by end of 2015 from estimated US\$ 4 trillion. The outward foreign investment of China increased to US\$ 32 billion and inward foreign direct investment declined from US\$ 70 billion to US\$ 39 billion. *The Chinese economy developments have had negative impact on South Africa and many other African economies including Zimbabwe. However, the country might benefit economically if it adopts officially the use of the yuan by being able to attract cheap credit.*

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4. Unemployment in the United Kingdom declined to 4.9% while wage growth registered 1.9% in the last quarter of 2015. Prospects of rates hikes in 2016 were regarded very slim as the authorities are still interested in stimulating growth and increase labour productivity.

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6. *The strengthening of the US\$ is one of the factors that has contributed to capital flight from emerging markets. Zimbabwe has an opportunity of attracting investors because it is using a stronger reference currency (US\$). The major impediment to Zimbabwe has been high sovereign risk. Government has initiated initiatives to improve the conditions of doing business as a way of attracting foreign capital into the country.*

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2.3 South Africa

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9. South Africa economy is suffering from persistent currency depreciation due to: falling investor confidence; declining international commodity prices; power shortages; labour unrest; drought; increasing inflation pressures; credit rating downgrades and political uncertainty. *Depreciation of the rand is expected to continue in line with the global trends. Zimbabwe is going to be affected as South African imports will be cheaper worsening the country balance of payment position.*

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3. Marco-economic Developments

Zimbabwe is strengthening its relationship with China through many initiatives including promotion the use of Chinese yuan as a trading currency while the reference currency remains the US\$. Cooperation with china would be in the following sectors: railway; aviation; highway spaces; industrial infrastructure; human resource development; science and technology; and special economic zones. *A yaun facility was negotiated between Zimbabwe and China to facilitate trade and encourage its use. Meanwhile the yaun was included in the basket of currencies for SDR by the IMF as it meets the International Monetary Fund's (IMF's) criteria as a "freely usable" currency¹.*

¹ The IMF Board decided that the RMB met all existing criteria and, effective October 1, 2016 the RMB was determined to be a freely usable currency and will be included in the SDR basket as a fifth currency, along with the U.S. dollar, the euro, the Japanese yen and the British pound.

3.1 Government Revenue

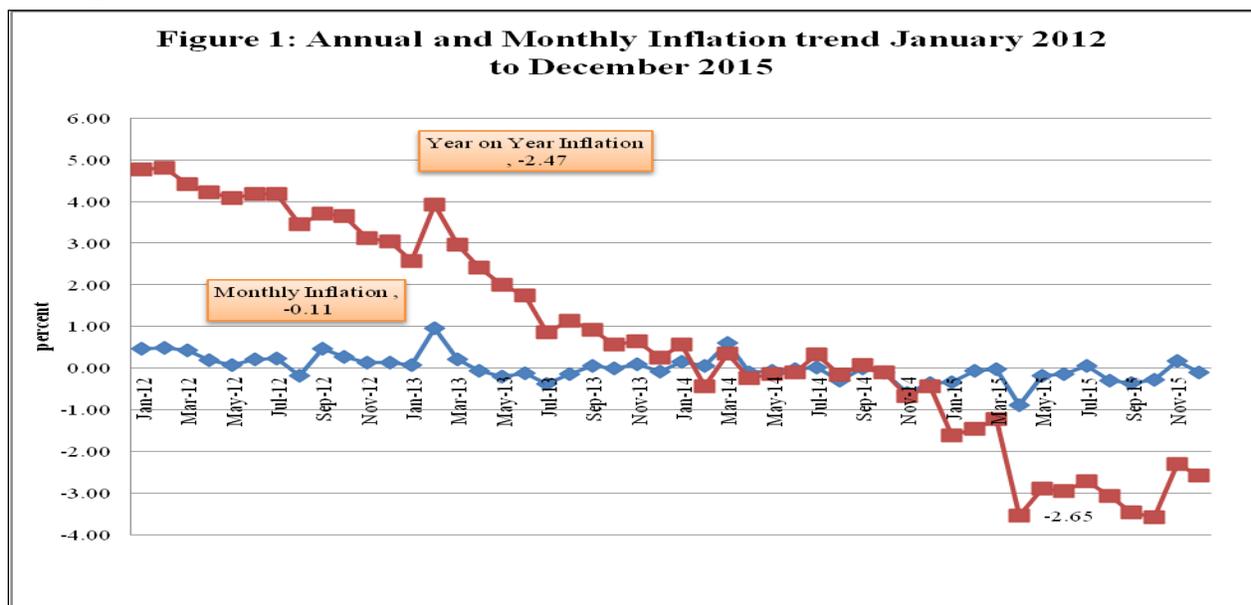
11. The cumulative government revenue gap was at US\$ 257.257 million as at September 2015. Most revenue lines missed their targets:

- Companies tax- 17.8%
- Royalties – 45%
- Tobacco levy – 14.1%
- Second hand vehicles- 10%
- Investment projects – 71.3%; and
- Pension contribution – 79.6%.

12. About US\$ 2.489 million was utilised for feasibility studies and capital expenditure was US\$163.73 million.

13. *This shows that government continue to operate under tight fiscal environment.*

3.2 Inflation and Interest Rates



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15. Leading the deflation in Zimbabwe are: rentals for housing declined by 11.51%; liquid fuels - -17.20%; gas- -13.50%; and telephone and telephax services- -15.62% in December 2015. Among the few items that experienced price increases include primary education that increased by- 11.08%. *The developments in inflation are reflective of declining economy, with depressed*

aggregate demand and high levels of unemployment. Any budgetary support which government negotiate might greatly improve the situation.

16.

17. Nominal lending rates declined from an average of 4-18% in October 2015 to 4-16.3% in November 2015. Weighted commercial banks' interest rates decreased from 7.28% in October 2015 to 7.67% in November 2015. Money supply increased from US\$ 4.6008 billion to US\$ 4.7452 billion over the same period representing an annual growth of 7.5%.

18.

19. Credit increased by 23% in November 2015, with annual growth in credit to the private sector growing by 2%. Private sector credit was concentrated in (%):

- Agriculture - 22.5
- Tourism -15.3
- Distribution -15.2
- Manufacturing -14.8
- Mining -5.3
- Transport and communication-3.1
- Construction -1

20. *While authorities are desirous to have interest rates go down in line with inflation, tight liquidity forces the rates up. However, in the long term interest rates are facing downward pressure as result of difficult operating environment which increases high default rates.*

Conclusion

21. The operating environment is characterized by tight liquidity that lacks long term funding for infrastructure development and a very fluid political environment. The country's manufacturing sector is operating below capacity with antiquated machinery and local industry cannot stand competition from international products. Drought has worsened the country's growth prospects including tight liquidity situation.

