Monthly Macro Economic Developments – August 2016

1. **Introduction**

The country continue to operate under very tight fiscal environment as the budget deficit is projected to reach US$ 1 billion by year end. The world economy is projected to grow by 3.4% in 2017 and China is expected to experience and economic growth slow-down registering about 6.2% in 2017. The international commodity prices continue depressed until, the end of the year though they have gained recently giving some hope to commodity exporting countries. South Africa is expected to get a down-grade in light of uncertainty in the market and poor investment.

2. World Economy

2.1 Overview of World Economy and Growth Prospects

Global economic outlook has been hampered by the uncertainty created by the Brexit and is now expected to grow by 3.1% in 2016 and 3.4% in 2017. Investor sentiment has been negatively affected and market confidence has deteriorated. Oil prices been supported by reduction in production and this has supported growth in Russia. Output in the emerging markets and developing countries has been better than expectation in the first quarter of 2016. However, production remained sluggish in most advanced economies. The dilapidated state of electricity water, roads and information and communication technology infrastructure in sub-Saharan Africa cuts economic growth by two percentage points annually and reduces productivity by as much as 40% (AfDB, 2016). The region need to invest at least US$ 93 billion annually until 2023 to overhaul its decaying transport and energy facilities (Deloitte, 2016).

Policy stimulus and stronger investment infrastructure have supported growth in China and curtailed catastrophic decline in Brasil. In 2017, China is expected to register 6.2% GDP growth lower than the 6.6% forecasted in 2016. Commodity prices are expected to register a decline of 0.6% in 2017, which will put a dent on commodity dependent economies like Zimbabwe which is expected to register a 1.2% growth in 2016 and 5.6 in 2017.

South Africa should focus on increasing infrastructure spending, strengthening support for skill development and maintaining real levels of spending on the poor. Meanwhile, South

Africa faces down grade due to political instability and policy uncertainty, lack of structural reforms, labour market flexibility and improve market competition. The other South African Institutions that face downgrades include: Eskom; Development Bank of Southern Africa (DBSA), Industrial Development Corporation (IDC), South African National Road Agency (SANRA), and Land Bank.

The strengthening of the Rand is a welcome development to Zimbabwean manufacturers who were finding it difficult to compete with lowly priced South African products.

3. Marco-economic Developments

Government revenue is expected to end the year at US$ 3.7 billion lower than the US$ 3.85 projection and budget deficit projected at US$ 623.2 million by June 2016 and projected to reach US$ 1 billion by year end. Employment costs accounted for 96.8 % of the total revenues. During the period under review:

- revenue underperformed by US$ 183.7 million;
- expenditure was above target by US$ 308.4 million;
- employment costs constituted about 96.8% amounting to US$ 1.638 billion; and
- the total government domestic debt was estimated at US$ 2.247 billion representing a 30% increase from last year.

Against the foregoing, the GDP growth was revised downwards from the initial projection of 2.7% to 1.2 % in 2016 and inflation is expected to average -0.4% signalling that the country remains in deflationary mode albeit an improvement from last year. The Agriculture sector is expected to decline by 4.2% leading to the general economic slowdown. *IMF (2016) highlighted that there would be no financial program under discussion with Zimbabwe until arrears are cleared and the discussions of clearing the arrears has not yet taken off. However, it was noted that the country authorities are discussing plans to clear arrears once these arrears are cleared then negotiations for a financial program would commence.*

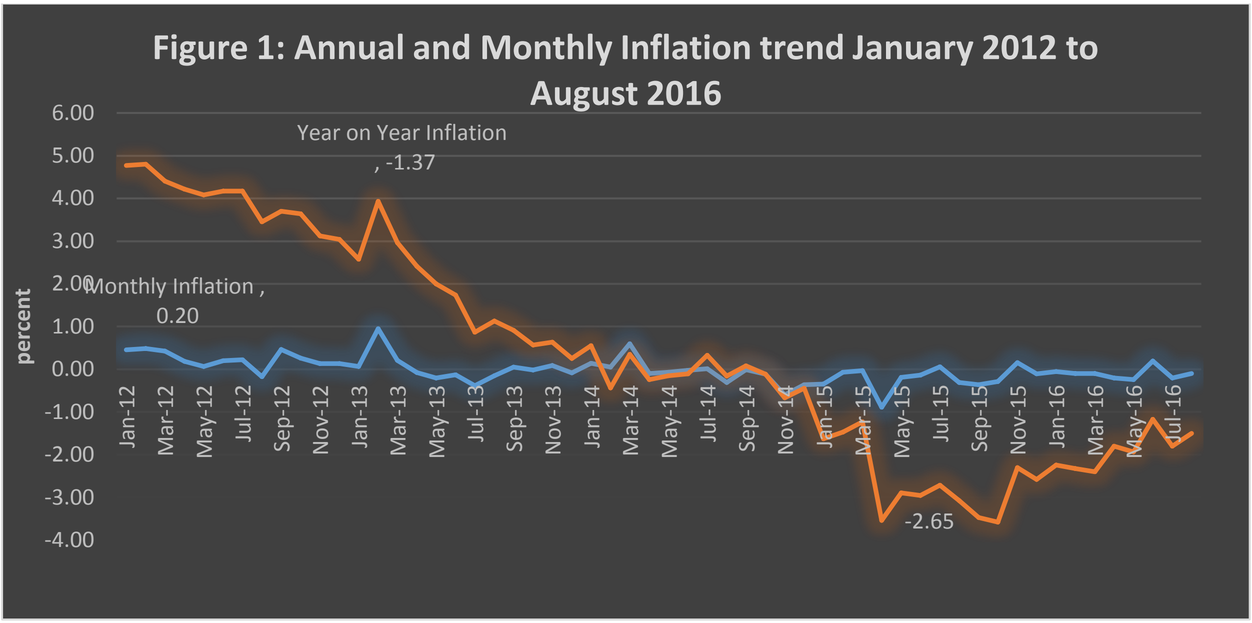
3.2 Inflation and Interest Rates

Year on year inflation gained by 0.2 percentage points to reach negative 1.42% in August 2016 and the month on month inflation registered negative 0.12% as shown in Figure 1. The country remain in deflation until the end of the year as Rand continues to strengthen. However, if a local currency is introduced inflation pressures would kick in and the possibility of returning to hyperinflation cannot be meekly dismissed. *As already pointed out in previous reports a lower inflation environment should encourage savings and be a boon to infrastructure development, however, higher sovereign risk remains the single major inhibiting factor mobilisation of long term funds.*

Table 1: Inflation by Sector, Zimbabwe,Zimstats, August, 2016

	Index			Inflation %	
Sector	**August 2015**	**July 2016**	**August 2016**	**Year on year**	**Month on Month**
Food and non alcoholic beverages	92.70	89.90	89.60	-3.34	-0.33
Alcoholic beverages and tobacco	105.20	103.60	103.60	-1.52	0.00
Clothing and Footwear	98.30	96.80	96.50	-1.83	-0.31
Housing water, electricity, gas and other fuels	99.50	98.50	98.50	-1.01	0.00
Furniture household equipment and maintenace	95.30	92.70	92.70	-2.73	0.00
Health	103.00	103.00	103.00	0.00	0.00
Transport	100.70	98.30	98.20	-2.48	-0.10
Communications	74.00	72.20	72.20	-2.43	0.00
Recreation and Culture	97.70	97.20	97.10	-0.61	-0.10
Education	125.60	137.00	137.00	9.08	0.00
Restaurants and Hotels	99.90	100.30	100.30	0.40	0.00
Miscellaneous goods and services	97.00	94.80	94.90	-2.16	0.11
Non Food Inflation	**100.14**	**99.64**	**99.60**	-0.54	-0.04
All Itmes	97.65	96.38	96.26	-1.42	-0.12

Food and non-alcoholic beverages declined by 3.34 % in August 2016 on a year on year basis and also registered a 0.33% decline on a month on month basis. Non-food items declined by 0.54% year on year and declined by 0.04% month on month as shown in Table 1. Bread and cereals, meat, milk, cheese and eggs, fruits and vegetables registered price declines on year on year basis and month on month.



4. Conclusion

The country continues in deflationary mode which constrains economic growth. Interest rates are facing downward pressure from the authorities as they want to stimulate production and improve the conditions of doing business. Tight fiscal space and policy discord and have worsened the country's investment climate.

The deflationary trend is a threat to the country's competitiveness and sustainability of companies.