The Zimbabwe Economic Outlook

Insurance Institute of Zimbabwe

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Introduction

- ✓ Zimbabwe’s economy continues to navigate a complex mix of challenges and opportunities throughout 2024 and as it enters 2025.
- ✓ The country remains heavily reliant on sectors such as agriculture and mining, but inflation, currency volatility, and external debts continue to weigh on growth.
- ✓ The insurance industry, a critical player in risk management and financial stability, is evolving in response to these macroeconomic trends.
- ✓ This presentation will provide an overview of Zimbabwe’s economic performance in 2024, predictions for 2025, and a deep dive into trends and issues affecting the insurance industry, opportunities and recommendations

Economic Performance: 2024 Overview

- ✓ GDP Growth: The economy grew by an estimated 3.5% in 2024, driven by agriculture and mining, though output was constrained by erratic weather patterns and persistent inflation. (Source: World Bank), RBZ, AFDB)

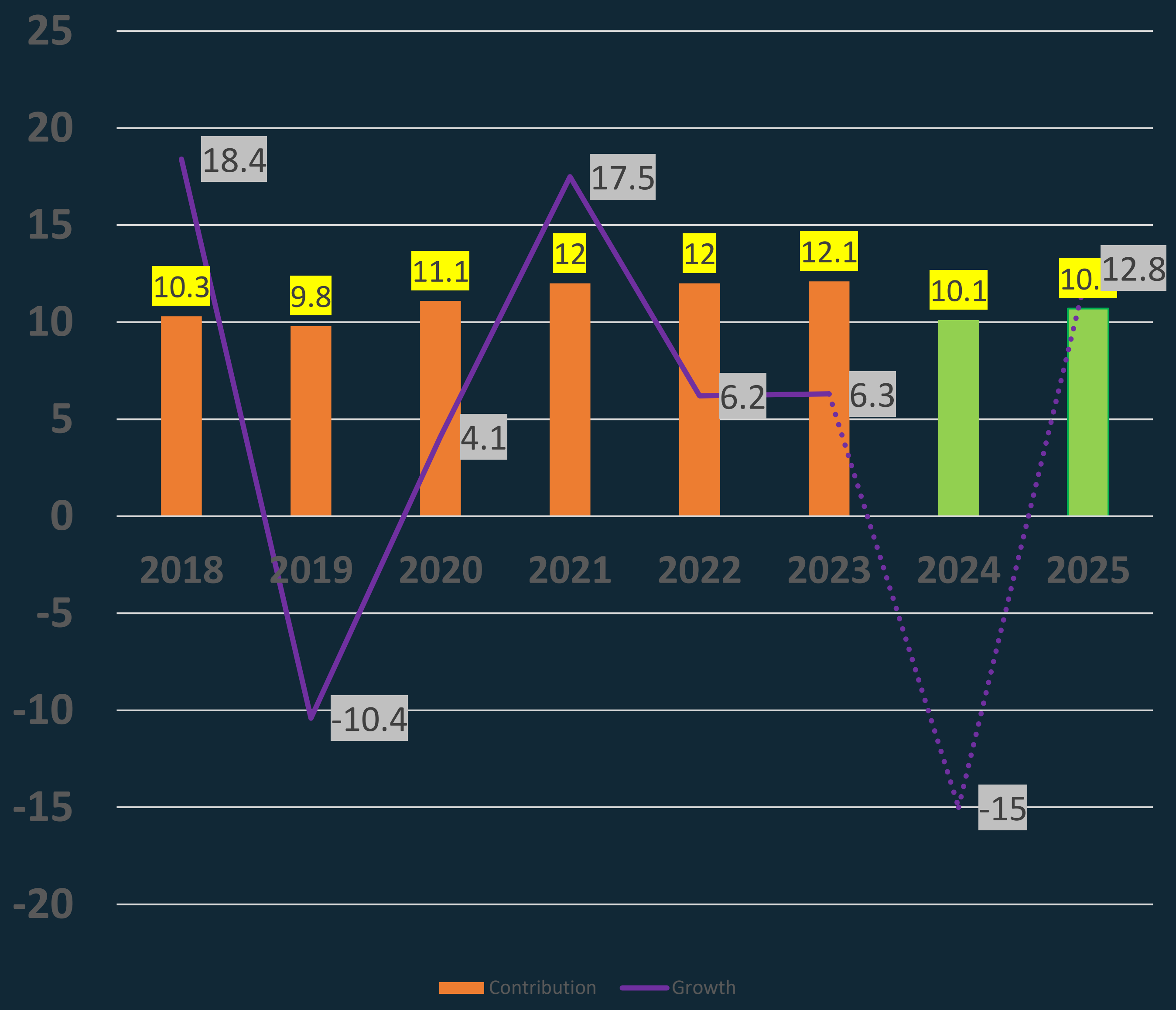
- ✓ Inflation: Inflation remained high, averaging between 100% and 150%, due to currency instability and supply-side disruptions. (Source: ZIMSTAT)

- ✓ Currency Volatility: The Zimbabwe Gold (ZIG) continued to depreciate , with parallel market rates differing from official exchange rates by up to 50%. (ZIMSTAT & IMF). This has created significant uncertainty across industries, including insurance.

- ✓ Unemployment: Unemployment remains high at around 19%, particularly in the formal sector, though the informal economy continues to absorb a significant portion of the labor force (Source: Trading Economics)

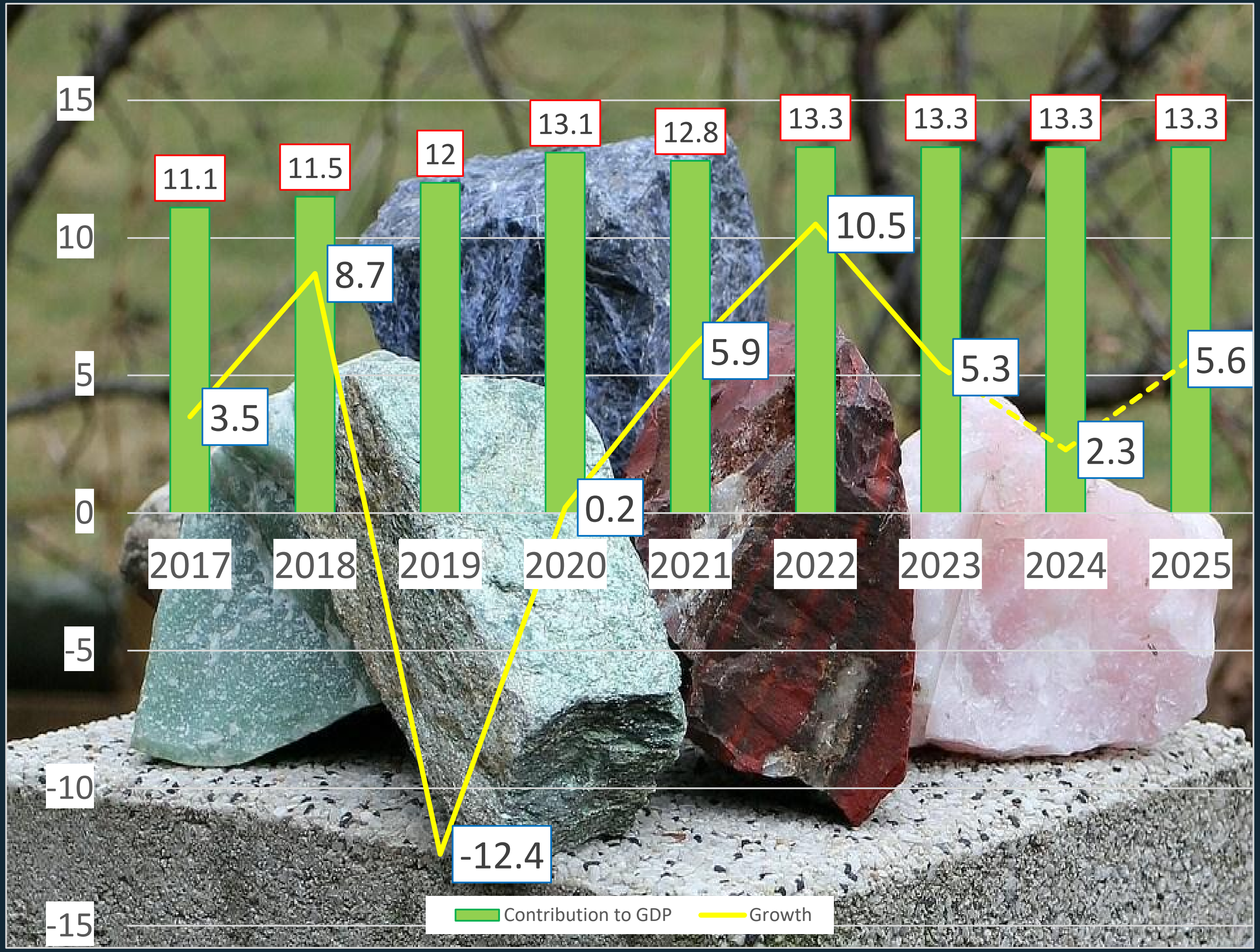
Agriculture Sector

- ✓ Post the 2019 drought, the agriculture sector has been on a growth trajectory.
- ✓ The success is on account of climate-smart conservation agriculture practices under the Pfumvudza/Intwasa scheme.
- ✓ This is coupled with the continuation of input support programmes for farmers, improvement in extension services, mechanisation and irrigation development.
- ✓ In 2024 agriculture growth is projected at -15% on account of El-Nino-induced drought.
- ✓ In the outlook to 2025 growth is projected at 12.8% on account of normal to above-normal rainfall.
- ✓ It is also evident that there is need to deepen investment in irrigation infrastructure to build resilience against the impact of droughts.



Mining Sector

- ✓The contribution of the mining sector to the economy has been steadily increasing from 11.5% of GDP in 2018 to current levels of 13.3%.
- ✓Similarly, in 2024 and 2025, growth is projected at 2.3% and 5.6%, respectively.
- ✓The growth has driven by increased output across all minerals and the discovery of new minerals, (lithium), as well as investments in additional capacities



Key Macroeconomic Indicators

1 **GDP GROWTH**

Real GDP Growth: 3.5% (World Bank Estimate)

2 **INFLATION**

Inflation Rate: 37.2% (October 2024-MOM)(ZIMSTAT).

3 **EXCHANGE RATE**

Exchange Rate: 1 USD ≈ 25.5893ZWG (official market rate)

4 **PUBLIC DEBT**

Zimbabwe's public debt stands at $18 billion USD, contributing to fiscal challenges. (Source: IMF)

5 **FOREIGN DIRECT INVESTMENT-FDI**

FDI has been low, around $150 million USD in 2024 due to political and economic uncertainty. (Source: UNCTAD)

Domestic Inflation Developments

The ZWG Inflation rate

Month-on-Month inflation rate

The month-on-month inflation rate was **37.2** percent in October 2024, gaining 31.4 percentage points on the September 2024 rate of **5.8** percent. This means that prices as measured by the all-items ZWG CPI, increased by an average of 37.2 percent between September 2024 and October 2024.

The month-on-month inflation rate is given by the percentage change in the price index of the reference month of a given year compared with the price index of the previous month.

For the month of October 2024, the ZWG CPI for Food and Non-Alcoholic Beverage contributed mostly to the month-on-month change in index (inflation rate) by a magnitude of 15.5%.

The USD Inflation rate

Month-on-Month inflation rate

The month-on-month inflation rate was **0.7** percent in October 2024, gaining 0.0 percentage points on the September 2024 rate of **0.7** percent.

The month-on-month inflation rate is given by the percentage change in the price index of the reference month of a given year compared with the price index of the previous month.

Year-on-Year Inflation Rate

The year-on-year inflation rate (annual percentage change) for the month of October 2024 as measured by the all-items USD Consumer Price Index (CPI), was **4.1** percent.

The year-on-year inflation rate is given by the percentage change in the price index of the reference month of a given year, compared with the price index of the same month in the previous year.

For the month of October 2024, the USD CPI for Food and Non Alcoholic Beverage contributed mostly to the month-on-month change in index (inflation rate) by a magnitude of 0.5 %.

Monetary Interventions

- Increased the Bank Policy from 20% to 35%
- Increased and standardized the statutory reserve requirements from demand and call deposits of local and foreign currency deposits from 15% and 20%, respectively to 30%.
- To allow greater exchange rate flexibility, in line with increased demand for foreign currency in the economy.
- Reduced the amount of foreign exchange an individual can take out of the country, from US$10 000 to US$2 000.
- Currency depreciated to US$1:ZiG24.39

Monetary Policy and Exchange Rate Developments

1

Monetary Policy Stance

The Reserve Bank of Zimbabwe has adopted a tighter monetary policy stance to address inflationary pressures and support currency stabilization through increasing the Reserve Ratio and the Interest Rates.

2

Exchange Rate Dynamics

The introduction of the Zimbabwe dollar and the management of the foreign exchange market have been crucial in maintaining exchange rate stability.

3

Forex Availability

Improving the availability of foreign currency through various measures has been a key focus of the monetary authorities.

Fiscal Policy and Deficit Financing

Revenue Mobilization

The government has implemented initiatives to broaden the tax base and enhance revenue collection, aiming to address the fiscal deficit.

https://www.herald.co.zw/treasury-authorities-50-50-currency-split-for-tax-payments/

https://www.herald.co.zw/mid-term-budget-review-to-drive-wider-use-of-zig/

Expenditure Management

Efforts to streamline government spending and prioritize critical investments have helped to control the growth of the fiscal deficit.

Financing Options

Zimbabwe has explored various financing alternatives, including domestic borrowing and engagement with international financial institutions, to fund its development agenda.

Sustainability Concerns

Maintaining fiscal discipline and ensuring the sustainability of the country's debt profile remain key priorities for policymakers.

Domestic Savings and Investment

Domestic Savings	Mobilizing domestic savings has been a priority, with initiatives to promote a savings culture and improve access to financial services.
Investment Flows	The government has introduced policies to attract foreign direct investment and encourage local entrepreneurs, aiming to boost overall investment levels.
Capital Formation	Efforts to enhance capital formation, including infrastructure development and support for productive sectors, are crucial for Zimbabwe's economic growth.

Zimbabwe's 2024 prospects-Implications from global and regional economic outlook

- ✓ The global economy is expected to slow down in 2024, with the growth rate projected to decline from 2.6% in 2023 to 2.4% in 2024 .
- ✓ The Sub-Saharan Africa regional economy is expected to maintain a positive growth trajectory, with the growth rate projected to increase from 2.9% in 2023 to 3.8% in 2024.
- ✓ Despite the anticipated slowdown in the global economy, the Sub-Saharan Africa economy is expected to grow at an accelerated rate.

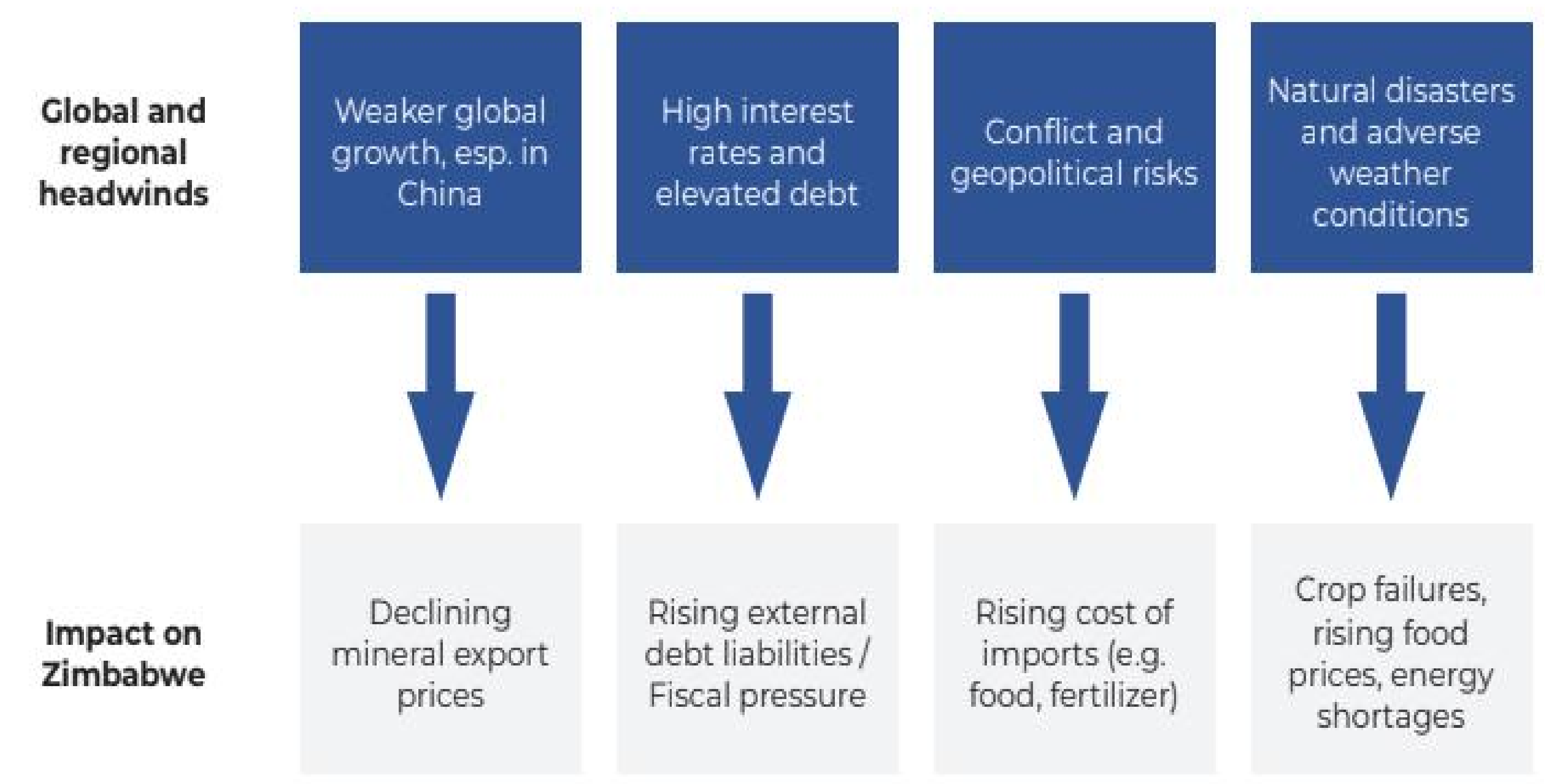
	ACTUAL OR PRELIMINARY ESTIMATES		CURRENT PROJECTIONS AS OF DECEMBER 2023	
	2022	2023e	2024f	2025f
World	3	2.6	2.4	2.7
Advanced economies	2.5	1.5	1.2	1.6
United States	1.9	2.5	1.6	1.7
Euro area	3.4	0.4	0.7	1.6
Japan	1	1.8	0.9	0.8
Emerging Markets and Developing Economies	3.7	4	3.9	4
China	3	5.2	4.5	4.3
Sub-Saharan Africa	3.7	2.9	3.8	4.1
South Africa	1.9	0.7	1.3	1.5

Source: World Bank, Global Economic Prospects, January 2023

Zimbabwe's 2024 prospects-Implications from global and regional economic outlook

- ✓ The weak global growth especially in China is being felt through declining mineral prices.
- ✓ Zimbabwe's major exports are minerals; thus, the country will be adversely affected by declining mineral prices.
- ✓ Adverse weather patterns and wars have resulted in increased prices of Zimbabwe's imports such as fertilizer and wheat.

Figure 1: Zimbabwe is vulnerable to global and regional turbulence



Factors Driving Economic Conditions

- ✓ Agriculture: The agricultural sector, especially tobacco and maize production, has been a major driver of growth, contributing about 17% of GDP.
- ✓ Mining: Zimbabwe's mining sector, particularly gold and platinum, contributes 60% of total export revenues.
- ✓ Monetary Policy: The Reserve Bank of Zimbabwe (RBZ) has introduced tighter monetary policies to combat inflation, including higher interest rates.
- ✓ External Debt: Zimbabwe remains in debt distress, with external arrears to international creditors.
- ✓ Climate Change: Zimbabwe continues to face the impacts of climate change, which affects agriculture and food security.

Economic Predictions: 2025

- ✓ GDP Forecast: The World Bank forecasts GDP growth of 4% for 2025, driven by improvements in mining output and agricultural productivity, assuming favorable weather conditions.

- ✓ Inflation Outlook: Inflation is expected to moderate but remain elevated, likely between 50% and 80%, as the government continues to grapple with currency stability issues.

- ✓ Currency: The Zimbabwean Gold is expected to remain volatile, but ongoing efforts to stabilize monetary policy could bring some relief, provided that fiscal discipline is maintained.

Domestic Outlook (RBZ)

- ✓ Despite, the recent exchange rate and inflationary pressures in the economy, the Reserve Bank expects month-on-month inflation to correct and dissipate to below 5% by end of year 2024 and below 1% for the rest of 2025.
- ✓ In 2025, the Bank should contain reserve money growth to economic growth enhancing levels of around 15% to 20% per annum during the year taking into account the projected growth rate of 6.0% and the need to maintain monthly inflation around 1%.
- ✓ Reflecting the base effect as a result of the high increase of month-on-month inflation in October 2024, annual inflation in 2025 will be elevated until September 2025 but is expected to significantly moderate in the last quarter 2025 to end the year at 15.0%.

2025 Fiscal Policy Thrust

- ✓ Overall budget deficit of less than 3% of GDP;
- ✓ Containing expenditure on compensation of employees including pension within 50% of projected total revenues threshold in any fiscal year;
- ✓ Refocus expenditure on the acquisition of financial and non-financial assets towards the financing of economic growth strategies outlined under NDS1

Trends Influencing the Insurance Industry in Zimbabwe

- ✓ Currency Volatility and Monetary Policies
- ✓ ESG (Environmental, Social, and Governance) Integration
- ✓ Climate Change and Insurance
- ✓ Customer Value: Embracing Customer-Centric Ecosystems
- ✓ Generative AI in the Insurance Sector
- ✓ Digital Revolution in Insurance
- ✓ Regulatory and Policy Changes
- ✓ Workforce Challenges: Retention and Attracting New Talent

Risks from the Prevailing Economic Conditions

- ✓ Policyholders are often hesitant to purchase long-term insurance products due to the unpredictability of the local currency. This exposes the industry to liquidity risks and an erosion of customer trust.

- ✓ Increasing climate risks are pushing up insurance claims, especially in areas such as crop insurance. However, these risks also create opportunities for growth.
- ✓ Cyber Risks: As insurers transition to digital platforms, they expose themselves to increasing cyber threats. Cybersecurity is becoming a key risk, and insurers need to protect sensitive data and ensure system resilience.

Opportunities for Insurers in Zimbabwe

- ✓ Digital Transformation: Increasing adoption of mobile technology offers opportunities for insurers to innovate with mobile-based insurance products and services.
- ✓ Partnerships: Collaboration with agriculture and mining sectors offers opportunities for tailored insurance products.
- ✓ Insurers could develop USD-indexed policies or explore alternative assets to hedge against inflation and currency risk.
- ✓ By embedding ESG principles, insurers can access new market segments, attract ESG-conscious investors, and enhance corporate reputation.
- ✓ Agricultural Insurance: Insurers can expand weather-index insurance products that offer payouts based on predefined climate conditions, such as rainfall levels.
- ✓ **Financial Inclusion: By offering affordable microinsurance tailored to smallholder farmers, insurers can promote financial inclusion and reach underserved populations.**
- ✓ **Case Study: In Goromonzi, IPEC facilitated payouts to farmers affected by drought, demonstrating the potential of weather-index insurance to provide vital financial relief and resilience.**

Opportunities for Insurers in Zimbabwe

- ✓ Automation: AI can reduce operational costs by automating repetitive tasks, improving efficiency, and enhancing accuracy in risk assessment.
- ✓ Accessibility: AI-powered tools can make insurance products more accessible by offering automated customer support, policy management, and claims processing at scale.
- ✓ Customer Intelligence: Digital ecosystems allow insurers to collect and analyze vast amounts of data, enabling them to build unique customer insights and tailor products that meet evolving needs.
- ✓ New Products: Insurers can offer innovative products such as usage-based insurance (e.g., based on driving behavior), on-demand insurance, or parametric insurance triggered by external conditions, such as weather events.
- ✓ Upskilling: Insurers can invest in training and development programs to bridge the skill gaps between older and younger employees.
- ✓ Talent Attraction: Offering flexible work arrangements, competitive compensation, and opportunities for career advancement can help attract new talent, particularly in the areas of data science, cybersecurity, and digital marketing.

Case Studies of Microinsurance Products

Kilimo Salama (Kenya)

- ✓ Kenya, like Zimbabwe, has a significant agricultural sector that is vulnerable to climate risks such as drought and floods. Smallholder farmers make up a large portion of the population and face substantial risks due to weather variability.
- ✓ Product: Kilimo Salama (meaning "Safe Agriculture") is an index-based weather insurance product launched by the Syngenta Foundation for Sustainable Agriculture, in partnership with UAP Insurance and mobile network provider Safaricom. The product uses mobile technology and weather stations to offer affordable crop insurance to Kenyan farmers.
- ✓ How It Works:
- ▪ Farmers buy inputs such as seeds and fertilizers along with an insurance policy.
- ▪ The insurance payout is triggered automatically if rainfall levels fall below or exceed certain thresholds, as measured by weather stations. Premiums are collected via M-Pesa, a widely used mobile money platform, making it accessible to rural populations.
- ✓ Impact:
- ▪ Over 187,000 farmers have been insured since its inception.
- ▪ The program helped farmers mitigate the financial impact of droughts and floods, ensuring they could reinvest in their farms after adverse weather events.

R4 Rural Resilience Initiative (Ethiopia and Senegal)

Ethiopia and Senegal, like Zimbabwe, have agricultural economies that are heavily impacted by climate change. The R4 Rural Resilience Initiative (R4) is a collaboration between the World Food Programme (WFP) and Oxfam America, focusing on providing smallholder farmers with risk management tools, including insurance.

- ✓ Product: R4 offers weather index-based insurance to protect farmers against drought and other climate-related risks. The program also integrates other risk management strategies, such as improved farming practices, savings, and access to credit.
- ✓ How It Works:
- ▪ Farmers pay for their insurance premiums through labor in community projects (e.g., building irrigation systems or planting trees), a model known as Insurance for Work.
- ▪ In the event of a drought, payouts are triggered automatically based on weather data, allowing farmers to recover more quickly and avoid selling off assets or reducing food consumption.
- ✓ Impact:
- ▪ In Ethiopia, by 2020, the R4 initiative had reached over 100,000 farmers.
- ▪ Farmers who participated in the program were found to be more resilient, with higher rates of food security and a reduced need for humanitarian assistance during droughts.

Yeshasvini Cooperative Farmers Health Scheme (India)

India, like Zimbabwe, has a large rural population with inadequate access to healthcare. Farmers in particular face significant risks due to the high cost of medical treatment.

- ✓ Product: The Yeshasvini Cooperative Farmers Health Scheme is a health insurance program designed specifically for members of rural cooperatives in the Indian state of Karnataka. This program provides affordable surgical and hospitalization coverage to farmers and their families.
- ✓ How It Works:
- ▪ Members of rural cooperatives pay a small annual premium (around $4 USD).
- ▪ The scheme covers over 800 different types of surgeries and hospitalization costs at a network of partnered hospitals.The scheme is subsidized by the government, making it affordable for low-income rural populations.
- ✓ Impact:
- ▪ By 2019, the scheme had enrolled over 3 million farmers and facilitated over 200,000 surgeries.
- ▪ The program has significantly improved access to healthcare for rural populations, reducing financial barriers to medical treatment.

CARD MBA (Philippines)

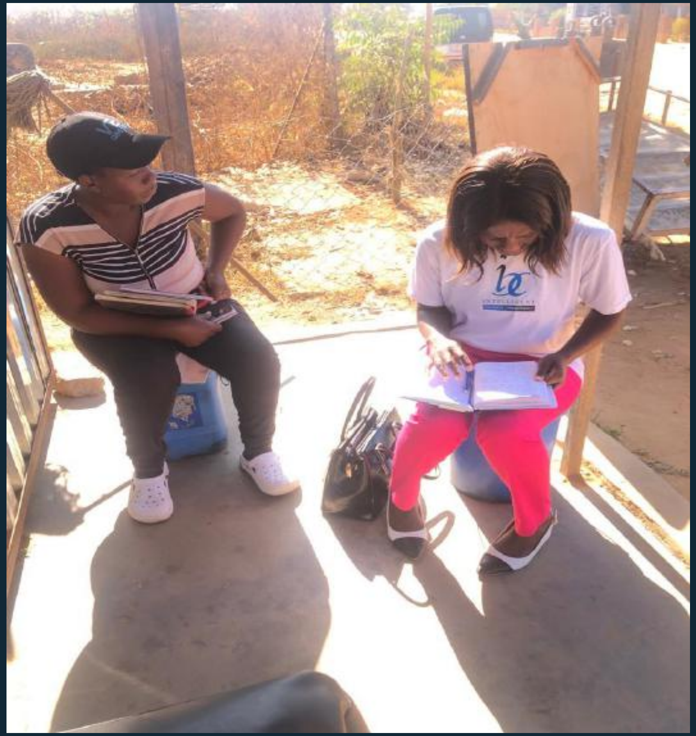
Context: The Philippines has a high prevalence of poverty and a large informal economy, similar to Zimbabwe. Microfinance institutions (MFIs) play a critical role in providing financial services to low-income populations.

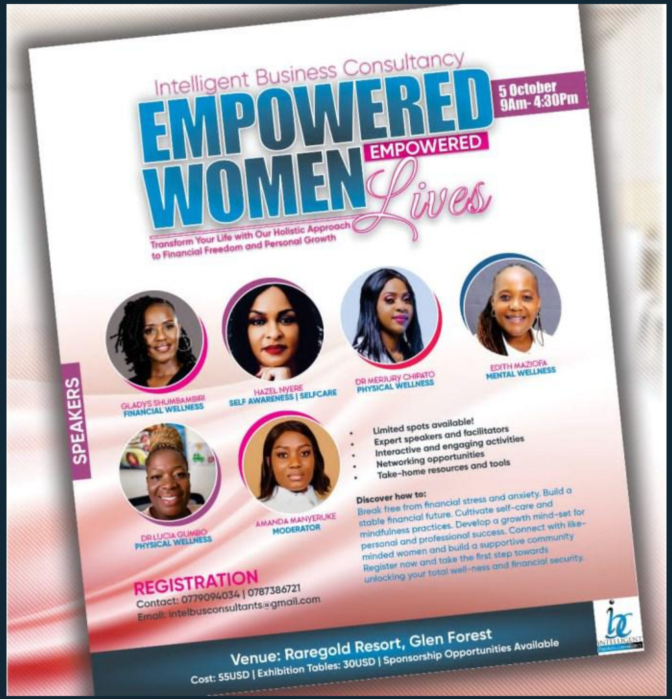
- ✓ Product: CARD Mutual Benefit Association (CARD MBA) is a microinsurance provider affiliated with the CARD Mutually Reinforcing Institutions (CARD MRI), a leading microfinance institution in the Philippines. CARD MBA provides life insurance, loan protection, and health coverage to low-income households.
- ✓ How It Works:
- CARD MBA offers life insurance to members of its microfinance institution, providing coverage for the death of the insured or their dependents.
- The institution also provides loan protection insurance, which clears the outstanding loan in case of the borrower's death. Premiums are designed to be affordable and are collected as part of the microfinance loan repayment process.
- CARD MBA also operates a health insurance program, which reimburses hospitalization costs.
- ✓ Impact:
- CARD MBA has over 17 million members insured across the Philippines.
- The program has significantly increased insurance penetration among the low-income population, offering financial protection against life's uncertainties.

Recommendations for Insurers

- ✓ Inflation Hedging: Develop strategies to hedge against inflation risk, such as adjusting premium structures.
- ✓ Diversification: Explore product diversification, especially in high-demand areas like health and agriculture.
- ✓ Innovation: Leverage technology to reduce operational costs and reach underserved markets.
- ✓ Risk Management: Enhance risk management practices to deal with currency and inflation volatility.
- ✓ Collaboration: Engage with policymakers to advocate for a stable regulatory environment.
- ✓ Advance Financial & Insurance Inclusion Through Financial Education Programs

Financial Inclusion In The Field





Call to Action

- ✓ Importance of partnerships between the insurance sector, government, and private industry.
- ✓ Encouraging innovation and resilience in Zimbabwe's insurance offerings.

Concluding Remarks and Policy Implications

1. The Economic Outlook of Zimbabwe presents a challenging yet opportunity-filled landscape for the insurance industry. The ongoing currency volatility, inflation, and climate risks require insurers to adapt quickly to changing conditions

2. However, emerging trends such as ESG integration, generative AI, and the digital revolution offer immense potential for growth and innovation

3. By embracing these trends and focusing on customer-centric ecosystems, the insurance industry in Zimbabwe can expand its value proposition and enhance its resilience in the face of economic and environmental challenges.

THANK YOU VERY MUCH

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