



## Dark Cloud Hangs Over Industry

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ZIMBABWE'S galloping inflation and rising interest rates will deal a body blow to the country's already debilitated manufacturing industry, further scuttling hopes for economic revival, analysts have warned.

They said there was now little hope for the recovery of Zimbabwe's industry, where capacity utilisation is reported to have fallen below 50 percent due to persistent foreign currency, power and fuel shortages.

Zimbabwe's inflation rate surged to nearly 255 percent for the month of July, while the central bank hiked the key accommodation rate to 270 percent last week. Lending rates are expected to rise in sympathy with the interest rate policy.

Inflation, which has retreated from a record 623 percent in January 2004, remains the highest in the world. Analysts project the figure to end the year at around 400 percent.

The rise in inflation is also putting pressure on lending rates to go up, analysts say.

"These figures put us off completely, and heavily geared companies are especially going to be chopped off . . . they won't survive. There is now pressure on rates to go up and minimum lending rates are likely to go up to around 340 percent in tandem with inflation. And this is bad news for industry considering that most companies were sustained by concessionary funding. They won't survive," economist David Mpamhadzi said.

Zimbabwe's economy has shrunk by more than 30 percent during the past six years.

Last week the government lowered growth projections for 2005 to below two percent from earlier projections of more than three percent, but independent estimates project a further two percent decline.

The country is also grappling with an acute shortage of foreign currency, a development that has resulted in manufacturers scaling down production.

The analysts said the government's appetite for unbudgeted funds was fanning inflationary pressure.

"This situation is getting out of hand and we need to restore confidence in the country so foreign investors and donors can return. The inflation figure makes it that much more obvious that there is need for a political solution to Zimbabwe's problems," said economist James Jowa.

Manufacturing has shrunk by 51 percent since 1997 and exports have fallen by half during the past four years.

The Central Statistical Office says the manufacturing sector grew by 6.6 percent between 1990 and 1998 but been on a downward spiral since then.

A market analyst with Tetrad Securities said producers had not been able to access foreign currency from the central bank, with only seven percent of being met since June compared with 27 percent in the previous month.

More than 750 firms are estimated to have shut down between 2000 and 2003.

Apart from the high inflation, companies have been battling foreign currency shortages, frequent power cuts and loss of offshore lines of credit.

The transport sector, badly affected by fuel shortages, was last year estimated to have declined by 61.8 percent, while the textile industry contracted by more than 59 percent.

The Confederation of Zimbabwe Industries (CZI) last year said a steep rise in production costs had affected the government's stated objectives of fostering export-driven growth.

The CZI says the number of retrenches trebled from 1 187 in 2002 to 3 585 in 2003, with more than 40 companies closing shop, while 25 scaled down operations in 2004.

"Political troubles combined with the abandonment of sensible economic policy closed off most of the aid tap, scared away most foreign investment and chased much of the talented workforce out of the country.

"While many of these actions appear economically irrational, they may be explained in a perverse political logic," said the Centre for Global Development.

Analysts say the dark cloud hanging over Zimbabwe's manufacturing sector is reflected in the widening disparity between the southern African country's economic fundamentals and those of its major trading partners in the region.

Gross domestic product for South Africa, Zambia, Malawi and Botswana was last year projected to grow by 3.5 percent, 4.1 percent and 6.5 percent respectively.