

BANKERS ASSOCIATION OF ZIMBABWE



MONTHLY ECONOMIC BULLETIN

SEPTEMBER 2014

Editor's Note

The Monetary Policy Statement and the Midterm Fiscal Policy Review announced recently revealed that the economy continue to be hamstrung by a host of challenges. The resolution of which cannot be the prerogative of any one institution alone but requires the combined effort of all Zimbabweans.

The Central Bank Governor managed to put it correctly that the nation needs to work as a team to confront the challenges facing the economy. We are in it together as a nation. We cannot be bystanders. Nothing is further from the truth, the economy can only move if its citizens push in the same direction and together we can do it.

The external sector position remains precarious with a net trade balance of US\$2.97 billion as of August reflective our huge appetite for imports. There is need for the people to pull in the same direction and reduce importation of unnecessary goods into the country. The current liquidity challenge the country is facing can be significantly reduced if we exercise discipline and reduce the import bill. Do we really need a policy to reduce import or a change of mindset?

Inflation continued on a zig zag trend. Annual Inflation declined significantly in the month of August shedding off 0.16 percent from the 0.31 percent inflation in July. This decline in the rate of inflation is a concern given we have just moved out a deflation. There is still potential that inflation might return back to the negative territory in the short term. An understanding of the dynamics driving inflation is very critical. There is need for proactive measures to be instituted to arrest the situation now.

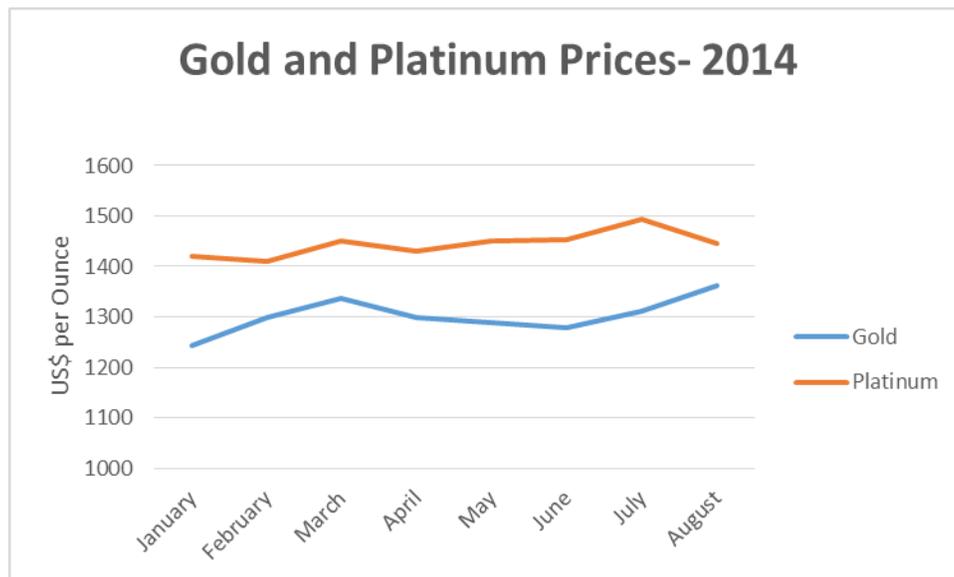
At this juncture, as announced by the monetary authorities there is need to get back to basics for the prosperity of the country. The fiscal authorities should lead now by reducing their appetite for borrowing on the local money market to avoid crowding out the private sector given the limited resources in the economy.

Till we meet next month.

International Commodity Prices

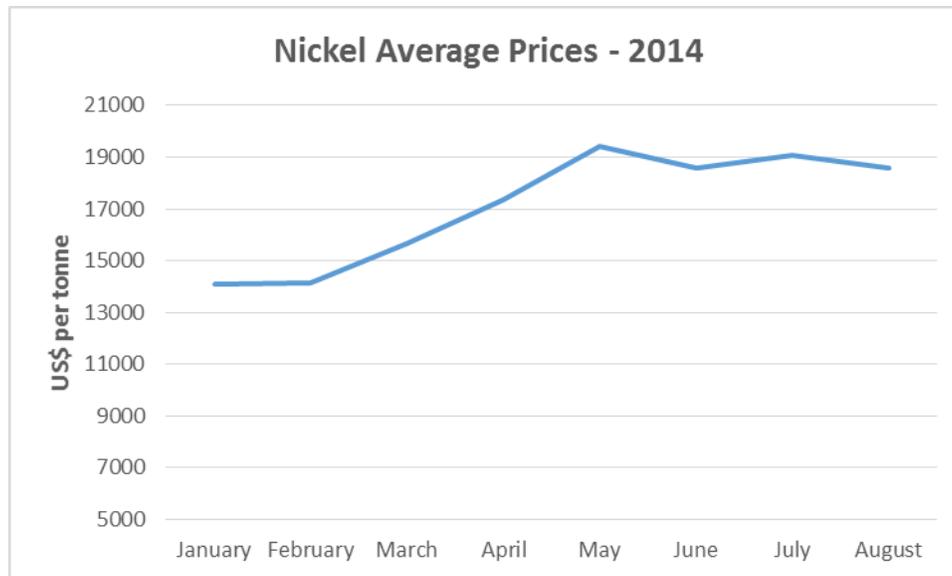
Gold and Platinum prices continued to depict uncertainty without any clear trend since the beginning of the year. The average price of both Gold and Platinum has been showing an up and down trend since January bringing in much uncertainty in the mining sector supposed to be one of the pillars of the ZimAsset programme.

According to the recently announced budget besides the weak international prices minerals, frequent power outages, obsolete equipment and inadequate funding for recapitalization undermined performance during the first half of the year. Improved performance of the mining sector has the potential to increase fiscal revenue performance and also lead to the success of ZimAsset.



Gold managed the highest average monthly price of US\$ 1336.71 per ounce in March before it declined to US\$1278.49 per ounce in June. The price then picked subsequently in July when it averaged US\$1310.78 per ounce. The lowest average price for the year was recorded in January.

Platinum has exhibited an upward trend since April. The highest average price was recorded in July at US\$1492.50. August recorded a decline in the price of Platinum when it slumped to US\$ 1444.92. The low prices of platinum will continue to be a challenge to the Platinum producing mines that are under pressure to construct refineries for value addition and beneficiation of the mineral.



Nickel has generally been on an upward trend throughout the year. In January Nickel averaged US 14096.36 per tonne and by the July it was averaging US\$ 19050.11 reflecting a positive trend. The only decline in the price of Nickel was experienced in June when it declined from the May average of US\$ 19396.25 to US\$ 18575.83 per tonne. It is important that the price of Nickel to incentivize Bindura Nickel Corporation who have been battling to increase production since coming out of care and maintenance. The ever improving Nickel prices will allow the Mining House to reopen those mines that are currently closed hence reducing the unemployment rate in the country.

Macroeconomic Developments

In an effort to give policy direction to the economy, the Government announced the Monetary Policy Statement and the Midterm Fiscal Policy Statement. The statement came at a time the country is grappling with a number of challenges including tight liquidity conditions; company closures; rising formal unemployment; low production levels; non-performing loans; and disproportionate trade balance.

The Monetary Policy Statement was anchored on returning back to basics with the Central Bank adopting its fundamental central banking role. The statement identified stimulation of production as the key to unlocking challenges facing the country. The solution to the stimulation of production should be premised on the pursuance of consistent, transparent and predictable economic policy measures hence the need for the economic stakeholders to revert back to the basics.

The back to basics values include; Respect of the rule of law; Respect and love of each other as patriotic Zimbabweans; respect the environment; policy clarity, consistency, transparency and predictability; nurture positive business culture; nurture productive work ethics and culture to take responsibilities; visible fight against corruption, smuggling and profiteering; inculcate a culture of paying (bills, loans, duties, etc.); and good citizenship.

The Monetary Policy Statement further highlighted that the Central bank will be resorting to the core principles or functions of central banking, which are basically to be banker to Government, administrator of the national payment system, regulator of financial institutions, manager of Exchange Control, supervisor of bank use promotion & suppression of money laundering, lender of last resort and policy advisor to Government.

External Sector Development

External sector development remains a matter of concern. Imports continue to outweigh exports hence hemorrhaging the limited liquidity in the country exacerbating the liquidity situation. During the period January to August, total exports stood at US\$1.82 billion. Total imports for the same period were recorded at US\$4.08 billion. With a net trade balance of negative US2.97 billion, it shows that the imports are hemorrhaging the economy. This is one of the major causes of the liquidity challenges facing the country.

Imports and Export for the year to date

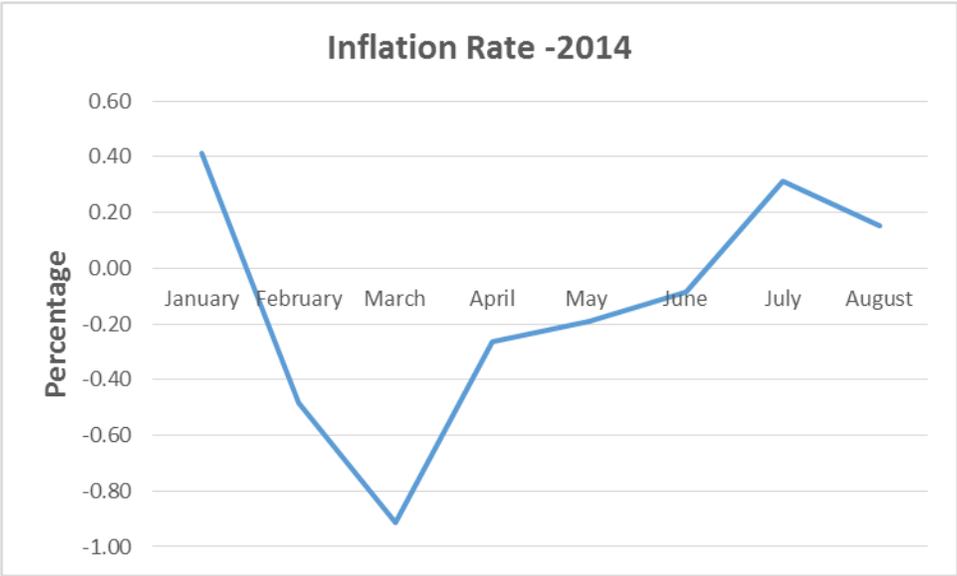
2014	Total Exports	Total Imports
January	278,197,743	487,818,849
February	192,465,779	478,787,045
March	156,413,793	499,943,772
April	178,995,578	491,604,647
May	184,239,672	510,044,319
June	238,007,288	528,126,751
July	269,918,713	538,106,281
August	319,218,737	547,294,573
Total	1,817,457,304	4,081,726,238

There is need to adopt measures that will arrest the importation of goods so that we resolve the liquidity challenges in the country. This should be based on self-introspection by the citizens and corporates through reviewing what they are importing at a personal level since this aggregate to be the total national imports

Inflation Developments

According to Zimstats, the year on year inflation rate for the month of August 2014 as measured by the all items Consumer Price Index (CPI) stood at 0.15 percent, losing 0.16 percent. This was at the back of gaining 0.39 percentage points on the June 2014 rate of -0.08 percent. This means that prices as measured by the all items CPI declined by an average of 0.15 percentage points between August 2013 and August 2014.

Given the uncertainty in the direction of inflation rate, there is need to really understand what structural factors have been driving inflation since early January. Unpacking these will help to unravel the mystery. There is need to monitor the inflationary development and ascertain the causative factors to be quite sure the factors that have driven the inflation into the negative rate are gone.

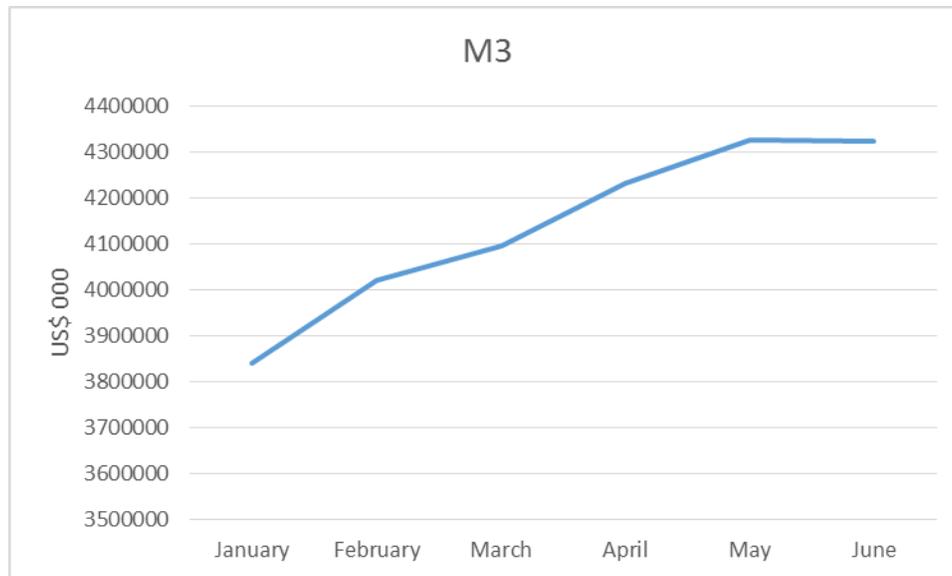


In the outlook, inflation is expected to remain low give that it is expected that aggregate demand in the country will remain low hence there will be limited pressure on prices. Factors that are likely to have a bearing on inflation in the short to medium term are international oil and food prices, as well as the country’s real effective exchange rate against our major trading partners.

Monetary Developments

Broad Money Supply

On a monthly basis broad money supply declined by 0.05 percent to US\$ 4, 323 billion in June from US\$4, 325 billion that was recorded in May 2014. As depicted in the diagram below, the decline in broad money supply recorded in June was the first one since the beginning of January 2014.



According to the Reserve Bank of Zimbabwe, the decline in money supply was mostly attributable to the outflows that were registered under the demand deposits and deposits with maturity of less than a month. These two categories registered outflows equivalent to US\$53.16 million and US\$6.3 million respectively. These outflows were offset by increased deposits to the tune of US\$30.6 million in deposits with a maturity of over 30 days and US\$26.7 million in savings deposits.

Credit to Government

The appetite to borrow from the domestic money market by the government has been increasing evident through the increasing amount of government paper that is being put on the market. Net credit to government increased by 141.82 percent in the period between June 2013 and June 2014. The increase in increased credit to government is reflected in the amount of Treasury bills holdings by commercial and merchant banks. These have increased by 246.64% between June 2013 and June 2014.

Increased issuance of Treasury Bills by the Government reflects the challenges currently being experienced by the treasury in raising revenue depicting the underlying structural challenges the country is facing. With the company closures and unemployment also increasing, a revenue inflow to the fiscus becomes constrained.

Unfortunately, borrowing by government on the local money market takes place when there is general liquidity challenges affecting the country and the banking sector is characterized by short term deposits. There is currently increased demand for credit by the private sector which the banking sector is failing to satisfy. This implies that if the government continues to borrow, we will witness increased crowding out of the private sector by the public sector a situation which might exacerbate the deindustrialization that is already taking place in the country.

Credit to the Private Sector

Credit to the private sector continued to be driven by loans and advances, which were partly sustained by offshore lines of credit, as local sources of liquidity remain under strain. Lending to the private sector

by banks declined marginally to US\$2 955.85 million in June 2014, from US\$2 956.04 million in May 2014.

Sectoral Analysis of Commercial Bank Loans and Advances (US\$ 000)

Sector	Loans and Advances	Proportion of Total
Agriculture	536188.9	19.4
Construction	46085.8	1.7
Communication	28201	1.0
Distribution	500266.1	18.1
Financial & Investments	10656.3	0.4
Financial Organisations	25616.2	0.9
Manufacturing	417002.7	15.1
Mining	197441.1	7.2
Services	432692.4	15.7
Transport	46751.6	1.7
Individuals	499191.5	18.1
Conglomerate	17173.9	0.6
Total	2757267.5	100.0

A review of the combined Commercial Banks loan book reveals that at end of June, the total loans and advances were equivalent to US\$ 2,757, 267, 500. This was more than the loan book as at end of May 2014 which equaled US\$ 2, 747,814,600. Commercial bank loans and advances increased by 0.34 percent between May and June 2014.

The major beneficiaries of the loans and advances in the sector are Agriculture (19.4 percent; Distribution (18.1 percent); Individuals (18.1 percent); Services (15.7 percent) and Manufacturing (15.1 percent). Loans and advances continue to be distributed across all sectors of the economy.

Monthly Article Feature

Importance of Group Savings

The poor can save only small amounts individually, which are usually not enough to invest in productive resources. Alternatively they can save as a group. By saving as a group, the poor can accumulate a larger amount of money more quickly by pooling their savings in a common fund which can then be used by the group or a member of the group for productive investment.

The savings can start being an informal group and then maybe move towards a semi-formal set up. These entire informal and semi-formal group saving methods have the potential of linking up with either other groups or to the formal financial system, such as banks, in order to have access to more flexible services.

Forming a savings group with persons of very different backgrounds may be much more difficult and is not encouraged hence the need to have members with the same attributes. Friends and neighbors, people of the same ethnic background, gender, age group, religious or social group, or those with similar incomes and expenses may be more inclined to form a savings group than those who have little in common. This would allow the members to come together with those they trust or have similar potential to save. This makes it easier for the group to define their objectives given their similar background.

It is important to understand that group savings should be mobilized for productive uses that will directly or indirectly increase members' incomes and their ability to save. The group can choose a common goal, such as saving to buy fertilizer for all members, or each member of the group can choose his/her own savings objective, depending on his/her priority and capacity. Members can also benefit from the soft loans that can be accessed from the pool of savings.

There are many advantages of group savings;

By saving as a group, the poor can help each other learn basic financial skills. As a group, they can more easily receive literacy and money management training from group promoters or trainers from NGOs, and also learn from other more literate members. Low level of literacy and numeracy skills make it difficult for the poor to keep track of their savings and to manage their money.

Group savings help the group members to be protected against vulnerability to risks like bad harvest, food shortage, sickness, flood, income shortage, etc. By saving as a group, these risks can be shared between the members. Individual members can rely on other members for help in time of need. Group savings can be used like an insurance scheme to help members deal with these emergencies when they arise.

Sometimes individuals do not have access to safe saving facilities, such as banks. By saving as a group, the poor can create a safe place to put their money. Some group saving methods does not require storing at all, since the money is immediately redistributed after collection. The group can also buy or make a cash box that will be safeguarded by several members which will periodically be deposited at the bank.

By saving as a group, the poor can protect themselves from accusations of being selfish, since the savings belong to many individuals, not just one. The threat against a single member of the group is a threat against all members.

Saving requires discipline since it means withholding something for future use instead of consuming it right away. All group members must have discipline and agree on a common set of rules to follow. If the rules are not enforced, then all members suffer. Groups solve this problem by using peer pressure or punishing those members who do not follow the agreed rules. This may include a fine for late payment or for missing a meeting, and even expulsion from the group.

For group savings to be a success there are various attributes that the group should have and these include

- Members have a common bond.
- Members have clear objectives.
- Members have agreed upon rules to follow.
- Members are honest and work hard to achieve their objectives.
- Members hold regular meetings and participate in discussions and decision-making.
- Members demonstrate leadership.
- Members keep accurate records of their activities and meetings

As the group savings grow, the group or its individual members may find advantages in linking-up with other financial institutions or with a bank. For example, a savings group which has mobilized a large savings fund might find it beneficial to open a group account in a local bank to safely store its surplus funds, or to access loans.

Opening an account with a bank has advantages to the group since the account allows individual small savers to pool their savings in a single larger account and leaves much of the account handling costs up to the group rather than the bank. Since small savers are much more interested in the safekeeping of their funds and easy access to them, they are also often willing to pay more for that service.

End

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