Monthly Economic Bulletin

October 2014

Editor's Note

Has Zimbabwe's economy continued in a deflation spiral? This is an important question that should be on everyone's mind at the moment. Despite inflation returning into positive territory in the last few months one can safely posit that the economy remains on a deflation path. The signs of deflation are still present and of course the CPI figures for September indicated a southward turn!!

We should be back in a deflationary environment by November 2014.

Developments on the inflation front, are really a symptom of a slowing economy.

The Delta results released recently attested to slowing demand and quite posibly declining disposable incomes with the financials confirming what management had earlier predicted. During the recent AGM, management forecasts predicted flat and potentially negative growth in the annual revenues and the outturn was a 5 % drop in topline sales.

It appears that continued company closures and the consequences thereof are bringing a lot of uncertainty at household levels. Thus there is the possibility that consumer spending and demand will decline even further and faster, not so much as a result of declining incomes than as a result of the tendency for consumers to reduce spending when they face increasing uncertainty.

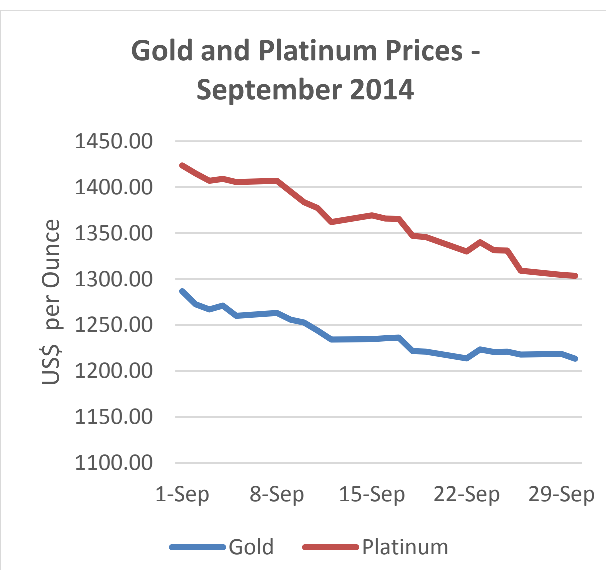
There is therefore an element of "forced thrift" which will most likely fuel the downward spiral.

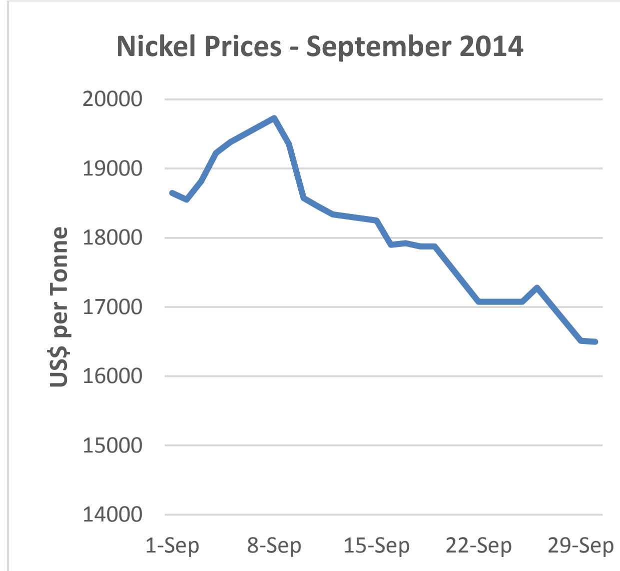
The government recently announced a raft of new and increased taxes on an already overburdened public. This escalation in taxes and the introduction of various fees and levies, is an attempt to take corrective action on revenue targets that are likely to be missed come year end. However, as basic economics tells us, more taxes in the economy mean less disposable incomes and lead to lower aggregate demand. So the higher effective tax rates will not help the economy in the medium to long term.

World Economic Developments

International Commodity Prices

The prices of the Gold, Platinum and Nickel plunged during the month of September. Gold which started the month at US$1286 per ounce closed the month at US$1213. This reflects a decline in the price of US$73 per ounce. Platinum on the other hand started the month at US$1409 per ounce, closed the month at US$1303 reflecting a cumulative decline of US$ 103 per ounce. The decline in th prices of the two minerals poses serious challenges to the economy which has anchored its economic blue print on the mining sector. With the prices of these core minerals showing great uncertainty throughout the year, the growth targets for the year will definitely be missed.



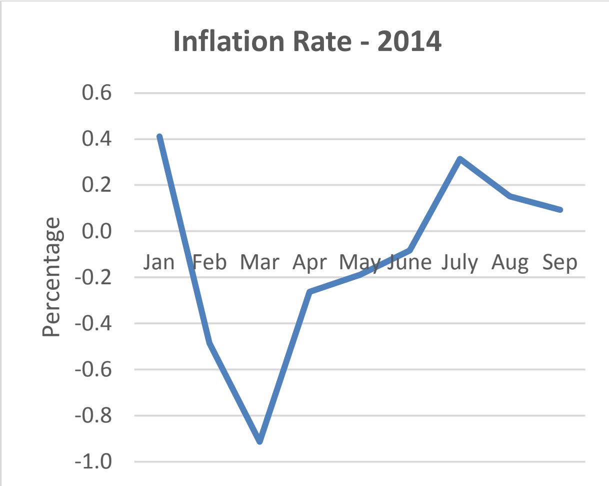


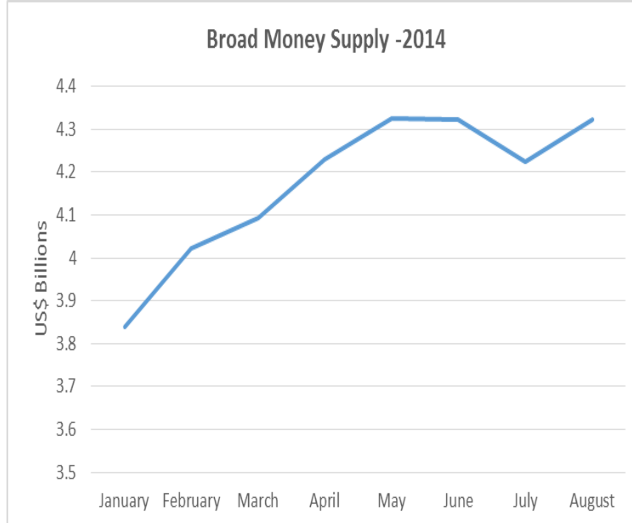
The price of nickel which was on the increase during the year, suffered the greatest decline in the month of September. Having managed to reach US$19 730 per tonne in early September, it then lost US$ 3 230 per tonne to close the month at US$ 16 500. If the decline continues, this development might affect the current plans by Bindura Nickel Corporation in resuscitating some of its projects. Declining prices impacts greatly on the viability of the mining operations.

Inflation Developments

Inflation as measured by the consumer price index continued on a downward trend for the second month running. The year on year inflation rate for the month of September 2014 as stood at 0.09 percent, shedding 0.06 percentage points on the August 2014 rate of 0.15 percent Inflation moved out of the negative territory in July before starting to decline again though remaining positive. There is still momentum that the economy might return to a deflation.

.





In the short to medium there is likelihood that the economy will be experiencing again a deflation (negative inflation). Given that the economy is dependent mostly on South Africa on consumables, it means that the effects of the unstable Rand exchange rate is impacting heavily on the current inflation rates in the country. The declining capacity utilization as shown by the manufacturing survey is another important distress signal affecting the country which is also feeding into the inflation rate.

Monetary Sector Developments

Money Supply

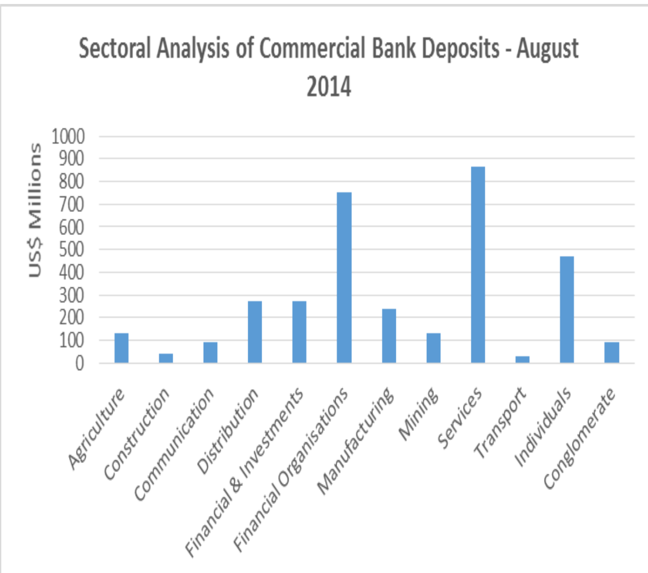
Broad Money Supply which started the year at US$ 3.889 Billion increased to US$4.322 Billion at the end of August. Money supply has be trending upwards throughout the year save for a decline that was recorded in July. The decline in July was mostly as a result of the end of the tobacco selling season. The tobacco selling season is usually associated with an increase in money supply as the buyers of tobacco usually source their money from offshore sources. It is therefore expected that at the end of the season the growth in money supply slows down.

The architecture of the banking sector deposits continues to be mostly short term. As at the end of August, the bank sector had only 19.6 percent of their total deposits as long term deposits. This reflects the nature of the challenges of the sector as it tries to finance various projects in the country which require long term funding. Of the remaining short term deposits demand deposits dominates at 49.1 percent of total deposits followed by under - 30 day deposits at 18.4 percent and savings deposits at 12.9 percent. The learning point from this architecture is that there is need for the citizens of Zimbabwe to start rebuilding the culture of savings. The main driver of economic growth should be our own resources first before we start looking outside. This is only possible if we cultivate a savings culture and the banks develop products that are attractive to the ordinary savers in the country.

There is need for the country to learn from the Asian Tigers whose growth was driven mostly from their own resources. External resources are supposed only to complement what we already have rather than these resources being the primary drivers for our investment.

Banking Sector Deposits

A Sectoral analysis of the commercial bank deposits shows that financial organisations, services sector and individuals were the main owners of deposits with commercial banks. Cumulatively these three contributed 62 percent of the total deposits with commercial banks. This situation is very unhealthy for the economy because if one of these would suffer a shock, total deposits in the country would decline significantly.

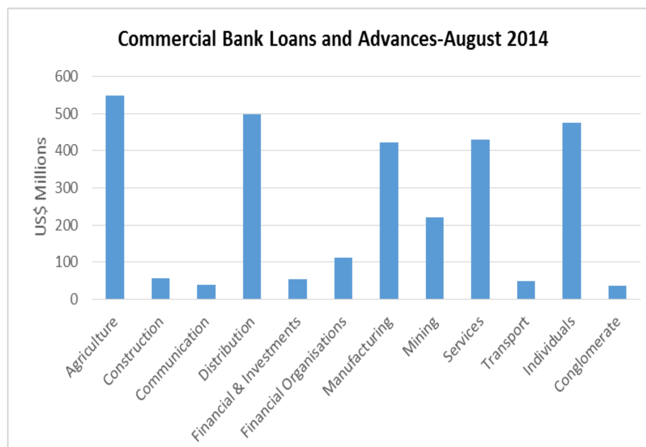


The least contributors to the deposit architecture of the Commercial Banks are; Transport (0.92 percent), Construction (1.15 percent), Communication (2.67 percent) and Conglomerates (2.65 percent). The performance of some of these sectors is reflective of the underlying economic challenges characterizing the country. The declining economic growth rate is usually mirrored in the really economy and the ability to generate business by the various sectors is currently compromised hence their dwindling deposits. In most of the cases these deposits are only transitory in nature.

Banking sector loans and advances

With the banking sector recording an increase in the amount of total deposits in the month of August, the sector responded by increasing the amount of loans and advances by 6.2 percent on an annual basis.

The net credit to government defined as the net amount of government borrowing from the financial sector increased by 86.9 percent since August 2013. Underpinning the increase in net credit to Government were Treasury bills holdings by commercial and merchant banks, which increased by 113.1% to US$237.5 million, between August 2013 and August 2014.

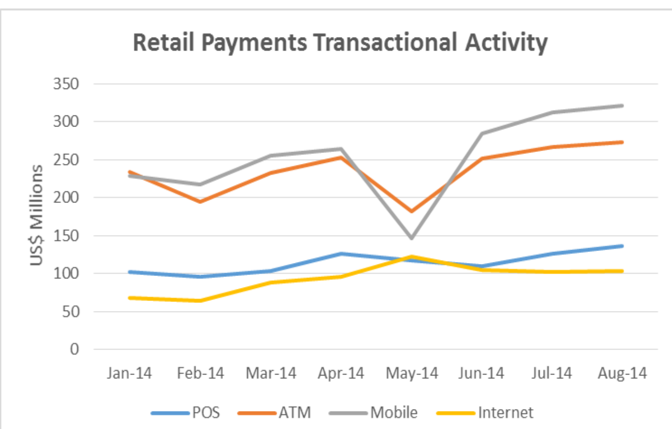


Given the short term nature of the deposits characteristic of the banking sector, lending to the private sector is mostly determined by offshore lines of credit. Credit to the private sector continued to be driven by loans and advances, which were partly sustained by offshore lines of credit Lending to the private sector by banks declined to US$3 117.9 million in August 2014, from US$3 165.4 million in August 2013.

The top five beneficiaries of the credit to the private as of August 2014 were; Agriculture (18.66 percent), Distribution (16.95 percent), Individuals (16.11 percent), Services (14.62 percent) and Manufacturing (14.38 percent). These five sectors consumed around 81 percent of the total loans and advances offered by the Commercial banks.

Retail Payments Transactional Activities

The values of transactions that were done through the alternative payments platforms of Point of sale, ATM, Mobile and Internet were on an upward trend since the beginning of the year. Use of Mobile platform and ATM platform were the most common as evidenced by the total amounts that were channeled through these platforms.



Despite the increase in these platforms, there is still need for a lot of financial education to teach the public the importance of adopting these alternatives to the use of cash. The country should be striving toward being a cashless society. These methods help in reducing the pressure on banks especially during this period of multi-currency where we are using foreign currency as legal tender. Given that the majority of our big supermarkets have POS, it is advantageous for the consumer to use their cards rather than to use cash for transacting purposes.

Zimbabwe Stock Exchange

The ZSE was relatively flat during the month of August to September with the benchmark Industrial Index losing a marginal 0.6% from 196.43 points in August to 195.25 points in September 2014.

The minings bourse was however more sensitive to tightening trading conditions and the Mining Index lost a significant 11.49%

The slow trading conditions during the month to September were reflected in both the volume and value of trade recorded.

The volume of shares traded fell dramatically from 328 million shares worth US$66.399 million traded in August 2014 to 211 million shares, worth US$34.056 million, which changed hands in September 2014.

August is traditionally firm month for ZSE shares and the trend from July 2014 to August 2014 this year were no different. However, as major ZSE listed firms began to release their half year results, pressure seems to be rising on investors as revenues are generally flat and profitability remains squeezed.

Major manufacturers like Delta Beverages announced a 5% dip in top line revenues, reflecting waning demand under tough economic conditions.

Econet Wireless, another major benchmark firm on the ZSE also announced an almost one third drop in profit after tax to US$49.6 million on the back of nearly flat top line revenues.

These results tend to suggest that there is little headroom for consumers in terms of spending power.

Monthly Feature Article

"The link Between Financial Education and Consumer Protection"-

by Clive Mphambela- Advocacy Officer

Recent widening discussions on consumer protection, have prompted the need for a broader locally contextualized discussion on this important aspect of socially responsible finance.

As banks in Zimbabwe take the lead in the new era of promoting financial inclusiveness, together with other stakeholders, it is pertinent to note that financial education, as part of broader financial literacy offensive is not only a social imperative but is in effect, business common sense as well.

"After all, a financially literate customer is a better customer". He /she is better able to manage his financial affairs and is therefore more financially disciplined and or responsible.

In the discussion on financial inclusion- the provision of financial services to a broader section of society that has been previously excluded- one of the challenges is naturally the lack of clear working knowledge of financial products and their effective use.

In such a context, it is easy for inappropriate products to proliferate, or for consumers to be effectively ripped off by unscrupulous service providers owing to the limited knowledge of what they will be going into when they enter into financial contracts.

Client protection thus becomes a necessary to tool to ensure that efforts at promoting financial inclusion, deliver the desired results. Client protection is therefore an essential element of inclusive financial systems, both to protect already existing consumers and to instill confidence in the financial system for un-served potential consumers. It is also one of the key components of responsible finance, and requires participation from all stakeholders.

The Importance of Industry self-regulation.

Self-regulation in an industry takes many forms. Globally financial sector players have been encouraged to self-regulate beyond the expectations set by authorities, especially with respect to consumer rights and customer protection.

Government regulation and supervision.

Government, as the official rule-maker and final arbiter, its action on client protection are essential for industry and consumer actions to have the necessary "teeth" and power of enforcement to improve practices at the market level.

Recently the consumer council of Zimbabwe announced that it was pushing for the enactment of laws that will give consumers "teeth".

As far as banking is concerned, the industry has been proactive in ensuring that its code of conduct takes into account the need to put the customer first.

The banking industry in Zimbabwe already has a reasonable track record of successful engagement with Government and regulators on consumer protection policies which have largely been self-policed.

However, there is greater realization that, consumers, when properly informed of their rights and responsibilities, are the ultimate industry watchdog, as they interact with the market on a daily basis and have a personal interest in receiving fair treatment and quality financial products. But to carry out this role, consumers need financial capability and knowledge of their rights, responsibilities, and the resources made available to them for questions or disputes.

Recent research suggests that traditional consumer protection and financial literacy approaches may not achieve their intended outcomes of improving low-income and inexperienced consumers' financial capabilities. This calls for an approach that allows providers of financial services to focus on more on direct interaction with consumers to understand their decision-making processes and the best ways to inform them of their rights, responsibilities, and resources and channels available to them for redress should dissatisfaction arise.

These are the hallmarks of a sound customer centric code of conduct for an industry.

Why Banks are Promoting Financial Literacy and Education

Zimbabwe, as part of a developing region, has financial systems that exhibit limitations, because beneficial financial services are available only to a minority of people; classically defined as a non-inclusive financial system. Therefore promoting financial literacy is an active tool that can enhance financial inclusiveness by making basic knowledge and understanding of financial products widely available in simple to understand forms.

The absence of financial literacy has been recognized to lead to making poor financial decisions that can have adverse effects on the financial health of an individual or business or even a whole economy. Such poor knowledge makes for a shallow and or unhealthy client base.

Creating Empowered Consumers of Financial Services

The bankers' view of Financial Literacy is typically associated with the consumer who has a responsibility to inform himself of the products he purchases and to understand the financial contracts he/she signs. It incorporates knowledge, skills and positive attitudes about money, saving, investment and credit.

Whether the target customer is an individual, SME business owner et cetera, appropriate, financial education is a key tool to reach this multidimensional goal. Financial capability, on the other hand, is about the context; it engages the financial services sector in its responsibility to offer the right products to its various target markets. It incorporates the various elements of responsible finance, responsible lending and promoting consumer awareness and rights.

Financial inclusion as a working whole implies profitable alignment of supply and demand, where financially literate consumers have opportunities to apply their knowledge in a marketplace of appropriate financial product options.

Financial literacy is expected to impart the wherewithal to make ordinary individuals into informed and questioning users of financial services. It is not just about markets and investing, but also about saving, budgeting, financial planning, basics of banking and most importantly, about being an empowered consumer of financial services.

Disclaimer Notice

While sources used in preparation of this economic report are believed to be reliable, the BAZ makes no express or implied representation about the accuracy or completeness of the information contained herein. The opinions, forecasts, assumptions and other information contained in this research report are as of the date indicated and are subject to change at any time without prior notice.

This report is produced primarily for circulation amongst stakeholders in the banking sector and is provided for informational purposes only and should not be construed as a solicitation or offer of financial or economic advice to influence any decision of the reader particularly with respect to trade in any asset, securities or related financial instruments. Neither the BAZ, nor any of its partners, directors, employees, representatives or agents shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including loss of profits arising in any way from the information contained in this report.

For any comments contact us at the following
BAZ
14177 Gunhill Avenue, Gunhill, Harare
P.O. Box 10521
Harare
Telephone: 744321, 744686, 744987
Email: abel@baz.org.zw or clive@baz.org.zw
Website: www.baz.org.zw