

Monthly Economic Bulletin



August 2013

Editor's Note

The economy was hamstrung by the plebiscite which was duly held on 31st July 2013. The elections were however marked by a hugely positive development in that they were peaceful. The majority of the observers highlighted that the elections were conducted in a peaceful atmosphere. What remains now, is the inauguration of the President and the announcement of the new cabinet.

It is everyone's expectation that the new cabinet will be attuned to realities and needs of the economy.

In the run up to the elections, business leaders and the general public were of the same mind that economic issues should preoccupy this next cabinet.

The economy is beset by a plethora of problems, ranging from the suboptimal external sector performance on the back of poor export delivery against a very dominance import sector. This combined with limited current and capital account flows continues to put extreme pressure on the strained liquidity situation in the country.

Zimbabwe's economic rebound hinges on fostering private sector-led growth and the next cabinet should strive to improve the business climate as a necessary condition to strengthen the country's economic competitiveness, build investor confidence and boost growth potential and thus create sustainable jobs and investment opportunities.

The banking sector should be at the centre of facilitating private sector led economic recovery and the several structural impediments to growth and investment that pervade the economy should be actively and decisively removed.

Principally, the uncertainties engendered by the current interpretation of the Indigenisation and Economic Empowerment Act have invariably impacted foreign direct investment and intimidated other inward capital flows, further exacerbating the dire domestic liquidity crunch. The end result is a dysfunctional financial intermediation environment characterized by high credit and other costs of doing business.

The second must-do for the new government is to put finality to agrarian reforms, particularly issues to do with the rationalisation of land holdings and granting of permanent title to new farmers. This will unlock the collateral value of agricultural land, unlocking capital for the farmers and through this, the true potential of the agricultural sector.

Thirdly, resolving issues around the exploitation of key mineral resources such as diamonds, iron ore, gold and platinum in order to improve transparency and enhance the contribution of the mining sector to the country's sustainable growth. In particular, there is need to have a new thrust which provides greater clarity in the country's mineral policies.

Lastly, there is need to widen the fiscal envelop and to create fiscal space for productive investment.

World economic developments

The global economy again took a cue from its major influences; the US economy, The Euro zone, and the BRICS. Global growth momentum remained positive during July.

USA - The US economy continues improving in major areas, but from a low base and with budgetary issues potentially re-emerging in the second half of the year.

Euro-zone - The Euro-zone's economy still provides mixed messages, with some improvements in output and sentiment, while the labor market remains in a dire situation and peripheral economies continue to struggle.

Brazil - The Brazil GDP forecast remains at 2.5% and 2.8% for 2013 and 2014 respectively, amid export improvements and fiscal/monetary measures to revive the economy. However, the domestic economic climate is still a source of downward risk.

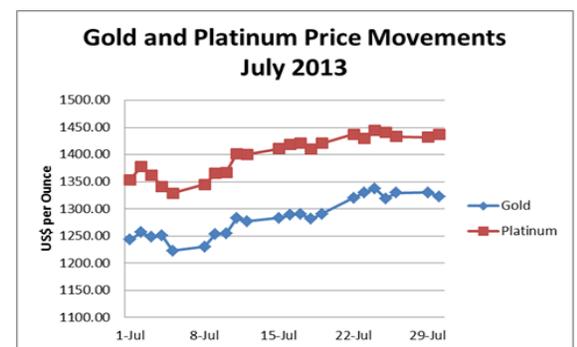
Russia - Russian manufacturing fell in July, with the gauge of manufacturing business conditions dipping into contraction territory. Two main factors have collaborated to produce the easing business climate in Russia. First, the downward trend exhibited by consumer credit growth over the past several months; the percentage change y-o-y in personal loan amounts has retreated from more than 44% in June 2012 to just above 36.5% this year. The second factor is a recent increase in the unemployment rate.

India - The government announced a fresh wave of economic reforms in July; foreign direct investment limits in key sectors such as telecom, defence and insurance have been liberalised, and a new bank licencing policy has been announced.

China - The People's Bank of China (PBC, the central bank) began in June to tighten the availability of liquidity and has also removed the floor on lending rates, an important step towards market-determined interest rates; interest rate liberalization has been expected by market participants. Deregulation of the lending rate came into effect on 20 July 2013.

International Commodity Prices

Following the tumble in the prices of precious metals (Gold and Platinum) during June, both precious metals bounced back in July. Their rally coincided with the recovery of leading currencies such as Euro and Japanese yen against the US dollar. This month was the best performing month for Gold in 2013 which has been on a decline throughout the year. The average prices of gold and platinum during the month was US\$1287.22 and US\$1399.02 respectively.



There were several factors that drove the prices of the precious metals up. These included the following;

- The decision of European Central Bank and other central banks to keep their respective cash rate flat in July;
- The slowdown in the recovery of the U.S equity markets that serve as an alternative investment for bullion; and
- The appreciation of several currencies such as Euro and Canadian dollar at the beginning of the month against the USD.

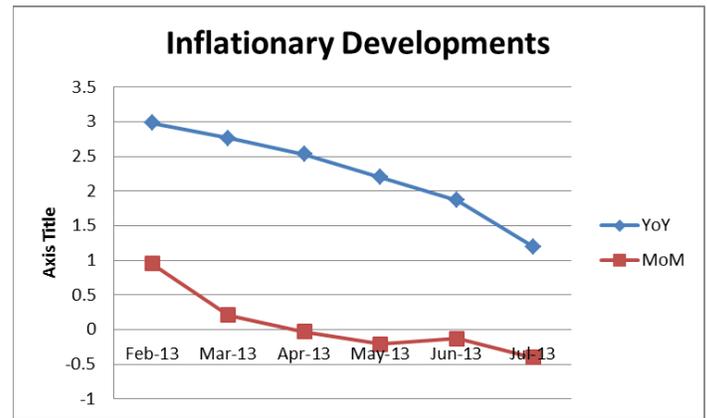
The slowdown in the recovery of U.S equity markets may have steered away investors towards bullion. If stock markets resume their rally, this may pressure down precious metals prices in the few months to come, hence the global economy might experience further declines in the prices of the precious metals.

The decline in the precious metal prices has had negative effects on the country’s mining sector. The majority of the mines are already alluding to taking cost containment measures, with others already contemplating moving out of the industry. Among the mines already affected is the Metallon Gold which has hinted on cutting down on its wage bill, citing rising costs of production against declining commodity prices.

On the other hand, Bindura Nickel Corporation is also facing some pressure due to the declining prices of Nickel. This comes at a time when the company is looking for resources to increase production at its Trojan Mine in Bindura. In light of this, the group is also looking at implementation cost containment measures.

Inflation Developments in Zimbabwe

Inflation continued to trend downwards as it remains largely under control. In the Month of July, year-on-year inflation declined from 1.87 percent in June to 1.2 percent in July. The decline in the annual inflation was as a result of the decline in the prices of communication; furniture, household equipment& maintenance and recreation and culture categories. The communication category registered a decline of 13.4 percent since July 2012.



Source: Zimstats

On the other hand the month on month inflation declined from -0.13 to -0.4 percent over the same period. The decline in the rate of month on month inflation was mostly driven by the decline in the prices of food and non-alcoholic beverages; alcoholic beverages; furniture, household equipment& maintenance; and recreation and culture. The major decline was registered in the food and non-alcoholic beverages which shed off 1.2 percent from the June prices.

The prevailing inflation figures are low and within the SADC macroeconomic convergence target of 5 percent for inflation. Following the deflationary trend experienced during the first half year, the revised target of 3.9 % average inflation by the year end is achievable.

Banking Sector Developments

In light of the slowdown in economic activity in the country, there was correspondent slowdown in monetary developments in the economy with broad money supply decelerating in June 2013. After surpassing the US\$ 4 billion dollar mark in May, the broad money supply declined to around US\$3.84 billion in June. The major class of deposits to be affected were those with maturities greater than 30 days which declined by almost US\$ 180 million followed by demand deposits which

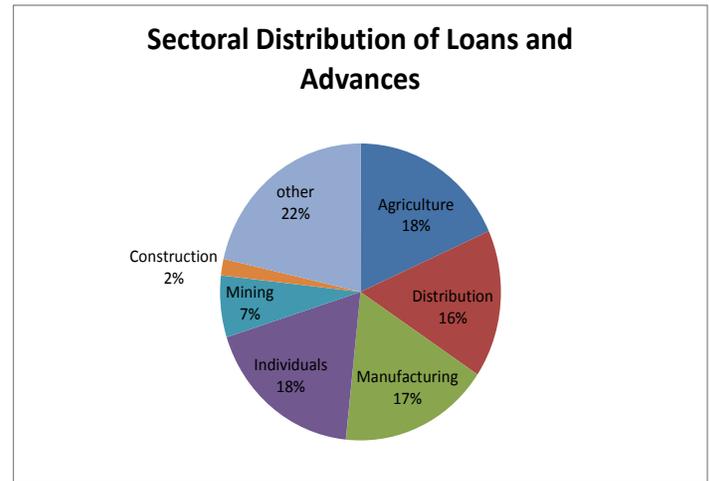
declined by US\$ 56 million. An outlier was the savings deposits which grew by US\$ 8.46 billion during the same period. The decline in the broad money supply was a result mostly of the uncertainty around the election that were due end of July. This saw a lot of economic agents taking a wait and see attitude as they read much into the different manifestos that were put forth by the different political parties. The growth in Money supply is expected to gather momentum once the electoral issues are resolved and the verdict on all court challenges is announced ushering in a new government.

Credit Growth

The financial sector continues to play a critical role in private sector development through the provision of credit to the private sector. In June the banking sector provided credit to the tune of US\$3 666.23 million. This was equivalent to US\$ 600 million increase from the May figure of US\$3 063.68 million. The increase in credit to the private sector was witnessed at the time deposits, the major source of liquidity in the country were actually declining in the economy. This is indicative of the importance being played by the offshore lines of credit which are playing a complementary role to the local sources of liquidity. This scenario has seen the growth in credit out pacing the growth in deposits and resultantly the loan to deposit ratio rose to 95.5% in June 2013, compared to 89.47% in May 2013.

One notable aspect of the credit to the private sector is that the productive sectors have been the major beneficiaries of the loans and advances with agriculture, distribution, manufacturing, mining and construction being the chief beneficiaries. This goes to show that the banking sector is supporting the whole spectrum of economic activities in the country despite the cake being small. The loans and

advances were mainly utilized to meet short term working capital requirements, restocking and raw material procurement, as well as to finance consumer durables.



Source: RBZ

Given the euphoria over the elections is over and the country cannot continue to take a wait and see approach, there is need for the country to source long term financing for capital purposes. Given that the country's infrastructure is dilapidated and out of touch with new technology, there is need to amass new lines of credit for recapitalization of our industry and infrastructure. This is important in light of lack of competitiveness of our exports and continued influx of cheap imports into the country.

Individuals also have also benefited from the loans and advances from the banking sector. The individuals obtained 18.42 percent of the total loans and advances from the banking sector. The individual loans are usually salary based loans and support a lot of activity at household and individual level. These can also be a major source of alleviating poverty as some of the funds are channeled towards small income generating projects and purchase of durable household goods.

Zimbabwe Electronic Funds Transfer and Settlement system (ZETSS), Cheques and Cards Activity

The values of transactions that were taking place through these three methods were on an upward trend since January before significantly declining in June. The total value of transactions which were carried out through ZETSS peaked in May at US\$3,915.3 million before declining in June to US\$3,544.3. On the other hand the cheque based transactions peaked in April at US\$16.6 million before declining over the last two months to close in June with a total value for the Month of US\$5.9 Million. The card based transactions and mobile & Internet based transactions both reached their peak of the 2013 in May before declining in June. The two had the total value of US\$298.4 million and US\$266.7 million respectively in June 2013.

There was a general trend that the payment system reached its peak in May before declining across all payment methods in June. This is attributable to the general uncertainty around the elections. The market reduced activities so as to watch the developments on the political scene hence reducing their transactions through the electronic system. Some of the economic agents resorted to the physical withdrawal of the funds from the banks rather than using electronic system.

Fiscal Policy Developments

The following are some of the major highlights of the fiscal policy statement which was presented by the Minister of Finance in July 2013;

The macroeconomic policy implementation for 2013 and 2014 will be guided by the Staff Monitored Programme (SMP), approved by Cabinet and signed off with the International Monetary Fund (IMF). The thrust of the policy will be on debt

relief and unlocking new inflows of development finance.

- Government has initiated the process of developing an Interim Poverty reduction strategy paper 2014-2015 which seeks to implement the Medium Term Plan (MTP) 2010 – 2015, with major focus on interventions targeted at reducing poverty.
- The broad macroeconomic framework was reviewed in line with the developments that have taken place from January to June 2013. The Table below shows a comparison between initial projection and the revised projection.

Revised Macroeconomic Framework for 2013

	2013 Initial projection	2013 Revised projection
GDP growth	5%	3.4%
Average Annual Inflation	5%	3.9%
Government Revenue US\$ m	3.844	3.906
Government Expenditure US\$ m	3.844	
Exports of goods and services US\$ m	5.201	4.536
Imports of goods and services US\$ m	8.069	7.649
Current account balance US\$ m	-2.740	-2.358
Broad Money Supply US\$ m	4.473	4.416
Domestic Credit US\$ m	3.975	4.243

Source: Mid Term Fiscal policy statement 2013

Government is in the process of establishing Agriculture Commodity Exchange in order to enhance efficiency in the marketing of the country's agricultural produce. The exchange is expected to be operational during the forthcoming grain marketing season.

Treasury intends to amend the Banking Act in order to improve corporate governance within the banking sector and to enhance consumer protection. The amendments will take into consideration developments in the banking sector and also align the banking legislation

with international and regional standards. The proposed amendments are expected to strengthen the Banking Act by providing minimum standards required for effective regulation of the banking sector including e-banking and mobile banking systems.

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