Monthly Economic Bulletin

Bankers Association of Zimbabwe

September 2013

Editor’s Note

The economy finally now awaits policy direction after the new cabinet was finally put in place a fortnight ago following the plebiscite which was duly held on 31st July 2013. As parliament opened this week following the inauguration of cabinet, all eyes are now on the various arms of the state to get the ball rolling.

It indeed has remained everyone’s high expectation that the new cabinet will be attuned to realities and needs of the economy.

In his latest address to parliament, the President Robert Mugabe basically outlined the economic agenda of the country, effectively laying out the work for the new cabinet.The economic imperatives from the President’s speech are Agricultural revival and food security, improving the vitality of the manufacturing sector through increasing capacity utilization, dealing with external sector imbalances and rebuilding the country’s transport and energy infrastructure.

Having set the broader tone and agenda, it is now left for the new cabinet to focus on the identified priority areas.

In our last issue, we highlighted that the economy is presently 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.

Going forward, Zimbabwe’s economic rebound hinges on fostering private sector-led growth and now this should be the major pre occupation of cabinet should be 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.

Naturally, the banking sector is the epicentre 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.

Another recognised imperative 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.

It also goes without saying that resolution of issues around the exploitation of key mineral resources such as diamonds, iron ore, gold and platinum in a way that enhances transparency and accountability will improve fiscal flows and enhance the contribution of the mining sector to the country’s sustainable growth. The new government has already put in place plans for a new mineral act whose new thrust will be to provide greater clarity in the country’s mineral policies.

Lastly, whilst we highlighted the need to widen the fiscal envelop and to create fiscal space for productive investment, we now however, do not see much scope for the creation of fiscal space as Government moves to hike civil service wages. This development, whilst welcome and sensitive to the plight of low income wage earners, will definitely narrow the fiscal space, further crowding out prospects of investment.

World Economic Developments

United States of America - While the momentum in the first quarter seems to have been significantly impacted by the fiscal drag, the second quarter's performance is pointing to some improvements that are forecast to continue in the second half. Taking this into consideration, the forecast for this year has been revised up slightly from 1.6% to 1.7%. However, with the main uncertainties coming from the fiscal and the monetary side, major challenges remain for the economy. The ongoing budget negotiations in Congress in connection with the potentially necessary increase of the debt ceiling by the end of October is one major aspect that again could increase uncertainty of private households.

The USA economy has avoided the fiscal cliff, but fundamental uncertainities still prevail in the monetary sector

If this is not solved in an orderly manner, it could keep consumers from spending and businesses from investing in the economy. Furthermore, the indication by the Federal Reserve Board (Fed) to reduce its monetary stimulus is another important aspect to consider. Not only is this impacting the local economy, but as has been seen by global reactions, it also has the potential to have an unwanted effect on those economies that have largely benefited from US-dollar investments.

Japan -Japan continues its expansion, backed by the stimulus measures that have been introduced by the government and additionally through an increase in exports, benefitting from the recovery of its most important trading partners in the OECD and also from China's recent improvements.

Vehicle exports are a key economy driver for Japan, but they are under treat from Chinasrecent improvements

has so far been the main driver of the so-called three arrows, the fiscal stimulus that has been implemented at the end of the last year has also been helpful. However, given the high debt level of the economy, further fiscal stimulus is expected to be limited, while the so-called third arrow of fiscal reforms will be of greater importance. In general, this year's expansion seems to be well supported, led by government support and also aided by recent global economic improvements, which are expected to continue into the second half of the year. Growth forecast has been revised from 1.9% to 1.7% in 2013; 2014 growth remainsforecast at 1.4%

Euro-Zone - The Euro-zone's second quarter GDP performance was better than expected, growing 0.3%. This increase in GDP marks the end of a long decline. GDP growth rates have now been falling in the Euro-zone for six quarters, the longest recession for the Euro-zone on record. The pickup is forecast to continue in second half of 2013 and slowly growing output should be expected in the next year.

***European Central Bank-The banking system in Europe remains relatively weak*.**

The Euro-zone has been the most negatively affected economic region within the OECD with a wide impact on global growth, so the latest development is very positive, also for emerging and developing economies, for which the Euro-zone remains a very important trading partner. But some uncertainties prevail.

The banking system remains relatively weak, political uncertainties in Italy continue and the domestic economy in Spain is still dealing with very high unemployment levels. These are among other issues that might keep the Euro-zone's development from a significant turnaround.

China - China's real GDP growth expectation y-o-y remained unchanged in August at 7.6% for 2013 and 7.7% for 2014. Economic growth over the next few years will be driven by consumption and fiscal spending aimed at improving standards of living and rebalancing.

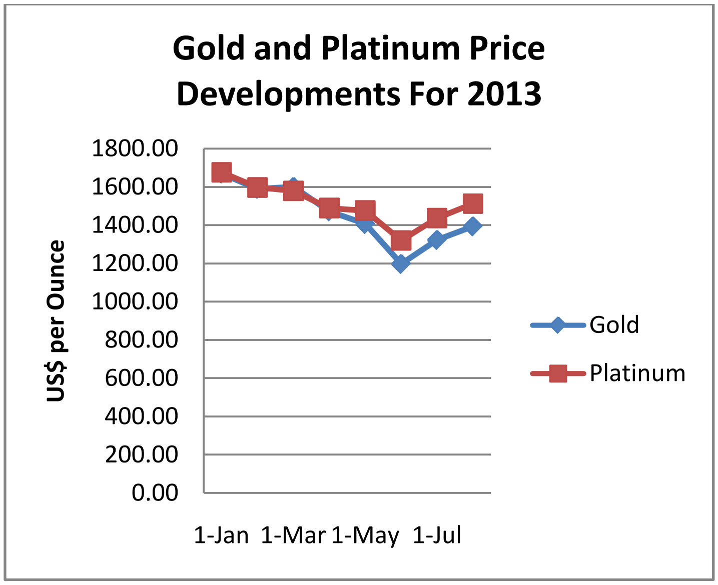
Russia - Russia's disappointing growth rate of 1.4% in the first half of this year, along with the trimming of the official forecast to just 1.8%, have overshadowed the few positive economic signals that emerged in the beginning of the second half. However, the looming risk that this year is that Russia may witness the slowest expansion rate since the 2009.

International Commodity Prices

The precious metals market has heated up this summer as prices spiked during August. The prices of both gold and platinum which had been on a decline have since started to recover.

The average price of Gold which had experienced the lowest average price for the year at US$1, 287.22 per ounce in July increased in August to an average of US$ 1, 347.26 per ounce reflecting an average increase of 5 percent.

On the other hand the average price of Platinum increased by 7 percent between July and August. The average price for platinum in August was US$ 1, 495.55 per ounce up from the US$ 1, 399.02 per ounce registered in July 2013.



The major drivers of the rise in prices during the month of August were:

The appreciation of several currencies including Euro, Japanese yen and Canadian dollar during the second part of August; and the appreciation of several currencies such as Euro and Aussie dollar at the first part of the month against the USD;

Some U.S reports were not as good as many had anticipated for example the new home sales fell last month which might have triggered the demand for precious metals.

The majority of the central banks in decided to keep their respective cash rate unchanged in August;

The decline of U.S equity markets that serve as an alternative investment for precious metals;

Macroeconomic Developments

For the first time in 2013, the annual rate of inflation has risen. The year on year inflation rate for the month of August 2013 as measured by the all items Consumer Price Index (CPI) stood at 1.28 percent, gaining 0.03 percentage points on the July 2013 rate of 1.25 percent. This means that prices as measured by the all items CPI increased by an average of 1.28 percentage points between August 2012 and August 2013. The major drivers for the increase in the annual rate of inflation were both food and non-alcoholic beverages; and non-food items. Overall inflationary pressure remains under control hence the annual target of 3.9% as outlined in the revised macroeconomic framework for 2013 remain attainable.

Food and non alcoholic beveragesaccounted for the bulk of inflationary pressures in August

Revised Macroeconomic Framework for 2013

	2013 Initial projection	2013 Revised projection	Status to July 2013
GDP growth	5%	3.4%	na
Average Annual Inflation	5%	3.9%	1.28%
Government Revenue US$ m	3.844	3.906	na
Government Expenditure US$ m	3.844		na
Exports of goods and services US$ m	5.201	4.536	1.834
Imports of goods and services US$ m	8.069	7.649	4.449
Current account balance US$ m	-2.740	-2.358	
Broad Money Supply US$ m	4.473	4.416	3.855
Domestic Credit US$ m	3.975	4.243	3.672

Source: Mid Term Fiscal policy statement 2013

The above statistics on n the external sector and money supply growth shows the country will be achieving the targets of the revised macroeconomic framework. The attainment of the domestic credit to the private sector will be hinged on the availability of the liquidity on the local market. The target for exports will be difficult to attain given the lack of competitiveness of the local industry. There is need for the government to put in measures for the revitalization of the local industry with potential to compete on the international arena.

Stock Market Developments

Having surged 52.80% up as at the end of July, the ZSE tumbled 22% in the month of August in the wake of the announced election results that didn't seem to cheer the market. The dampened expectations left the year to date performance of the key Industrial index at only 19.21% up in the current year.

Total market turnover was however up 27.70% to US$54 million whilst total net foreign inflows increased 65.17% to US$4.14million, whilst the percentage of foreign trades increased by 57.84%.

The impressive turnover numbers however did not spur market out of its post-election depression, which is also largely a reflection of the tight liquidity conditions prevailing in the broader economy.

However, this market behavior is a phenomenon not peculiar to Zimbabwe. It is fairly common for equity markets and other financial markets to soften somewhat post an election as clarity on policy is awaited.

The ZSE has tended towards recovery in the last few days since the announcement of the new cabinet last week with the industrial index putting on momentum as policy direction started to clear up.

Bargain hunters have renewed their interest in the market after its rapid fall since July 31st and key counters such as Delta Beverages are now up to 120 cents per share in a recovery that is also pulling up the general market.

Renewed interest!!! Bargain hunters have returned to the ZSE and the market has begun an upward correction.

The 22% drop in total ZSE market capitalization from US$6,005 billion as at 31 July 2013 to US$4,682 billion at the end of August represented a significant loss of value on investors' portfolios and the recent recovery suggests that the ZSE may have taken a heavier beating than necessary.

Banking sector developments

The majority of the banks managed to publish their half year financial results. The results were a mixed bag with other banks posting profits while others registered losses for the first half of 2013. The major striking feature of all the results was the declining incomes for the banks. All the banks acknowledged the relative economic stability prevailed during the first half of the year with inflation remaining low below 3 percent. Despite this stability the economy continued to be buoyed by certain macroeconomic challenges. The most common challenges that were identified in the published financial results were:

- Slowdown in economic activity across all sectors
- Declining industry capacity utilization
- Tight liquidity and financing challenges
- Infrastructure challenges
- Low domestic demand
- Widening trade and current account deficits
- Limited sources of capital,
- High cost of capital,
- Limited foreign direct investment inflows and external financing
- High external debt overhang,
- Perceived high country risk profile

Banking sector specific challenges

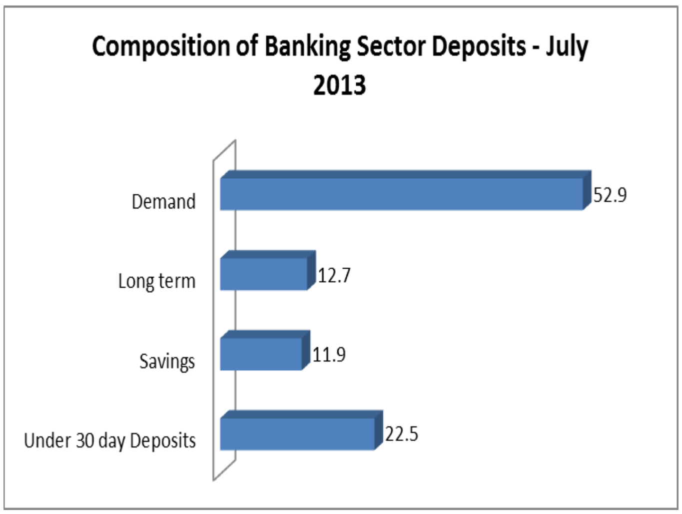
Tight rope walking!!! Zimbabwean Banks are feeling the effects of the liquidity squeeze and the MOU that have put pressure on profitability

The half year financial statements by the banks also showed that despite the economic challenges affecting their operations, there were also some industry specific challenges which had a bearing on their results. These challenges included the following:

- Effects of Memorandum of Understanding (MOU) on interest rates and bank charges
- Tight liquidity conditions,
- Volatile and transitory deposits,
- Declining deposit base
- Heightened credit risk,
- Limited activity on the interbank market,
- Absence of a functional lender-of-last-resort
- Low savings on the back of low incomes

Monetary Developments

In light of depressed economic activity in the economy, monetary developments in the economy were also suppressed. According to the latest RBZ monthly review, money supply registered a marginal increase of 0.4 percent to US$ 3 854.90 in July as compared to US$ 3 838 million registered in June 2013. The increase in total money supply in the economy was mostly driven by the increase that was experienced in under -30 day deposits and demand deposits of US62.6 million and US$ 49.1 million respectively.



These positive developments were weighed down by the declines registered over-30 day and savings deposits cumulatively totaling US$ 95 million. The major reason for the decline in these categories was mostly because of the uncertainty around the elections that took place at the end of July. Some of the people who withdrew their money from the banking sector perceived that holding cash was a safe happen given the uncertainty around the elections.

Bank sector credit to the private sector

The Reserve bank Economic Review reveals that the annual growth in credit to the private sector declined by 4.9 percentage points from 18.4% in June to 13.5% in July. On a month on month basis, credit to the private sector, however, grew by 0.8% in July 2013, from US$3 666.23 million in June 2013 to US$3 671.8 million in July 2013. In comparison to the total amount of money supply of US$3 854.90, the banking sector is channeling the majority of the deposits it is getting to credit to the private sector. The loan to deposit ratio rose to 95.3% in July 2013, compared to 87.5% in July 2012, reflective of growth in loans and advances. The implication of the loan to deposit ratio of 95.3% is that on average the banks are committing US$95 as loans and advances for every US$ 100 they are getting from the deposits. From an economic perspective there is great commitment of the banks to support the private sector.

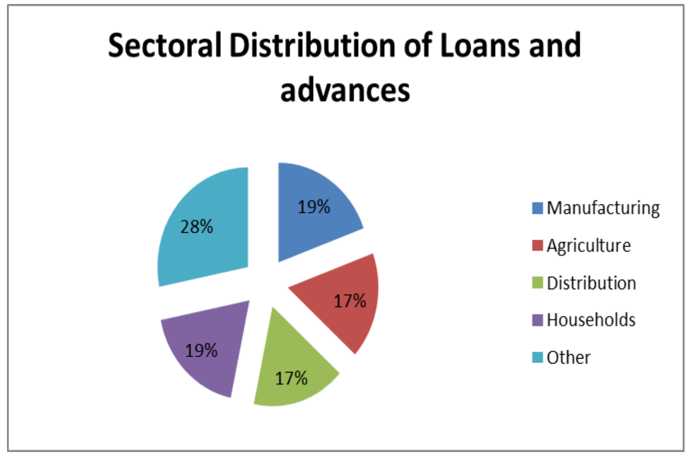
Banks have increasingly become cautious in their lending approach to limit the growth of a toxic loan portfolio.

Of the total advances to the private sector, the major component was made up of loans and advance consuming 85 percent, followed by mortgages by building societies at 8.5 percent, with banker's acceptances and other investments taking up 1.48 percent and 1.97 percent.

Another notable development highlighted in the Reserve Bank Economic Review is the increase in the offshore lines of credit. The offshore lines of credit contribution to the total lines of credit increased from 4.77 percent in July 2012 to 12.36 percent in July 2013. The offshore lines of credit are another important source of liquidity in a country like Zimbabwe which is facing the challenges of liquidity. The other major sources of liquidity should be exports but is currently compromised given the country is a net importer reflecting the increased outflow of resources. Increased lines of credit to the country are also reflection of increased confidence by the various institutions offering these lines of credit. With the elections having been concluded and the new cabinet now in place, there is likelihood of the situation further improving and increased lines of credit being extended to the various financial institutions to support private sector growth.

Banks are having to content with an ever growing appetite for loans and credit in the economy

The appetite for credit in the country continues to grow as companies and individual continue to demand more financial resources from the banking sector. Increased demand for credit continued to be received from the various sectors of the economy including manufacturing, agriculture, distribution and households accounting for 19.43 percent, 17.27 percent, 16.62 percent and 18.5 percent respectively of the total loans and advances to the private sector.



The worrisome development in in terms of credit to the private sector is the little resources deployed towards fixed investment activity which has remained with the procurement of plant and equipment accounting for 2.91% of total loans and advances. Given the rate of deindustrialization the country has face so far, there is need for concerted efforts to mobilise long term funding for the retooling of the industry. The current scenario of short term transitory deposits is not supportive of reindustrialization of the country.

National Payment System Transactions Highlights

The month of July witnessed an increase in all types of the National payments transactions as compared to June when a decline in the majority of the national payments transactions declined. The highlights for the month of July are given below:

The value of transactions processed through the RTGS system in July 2013 increased by 11.60% to US$3.96 billion, from US$3.54 billion in June 2013. On the other hand, the volume of transactions also registered an increase of 10.79%, from 185 802 to 205 854 during the same period.

The total value of card based transactions rose by 11.93%, from US$298.40 million in June to US$334 million in July 2013.The value of mobile and internet based transactions also increased by 13.69%, from US$266.70 million in June to US$303.20 million in July 2013.In value terms, cheque transactions increased from US$5.90 million in June 2013 to US$12.30 million in July 2013.

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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