

# Monthly Economic Bulletin



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October  
2013

## Editor's Note

The economy is now getting clear policy direction following the appointment of the new cabinet 31st July 2013 plebiscite.

The re-engagement with key stakeholders, particularly the Breton Woods institutions is high on the agenda of the new government. However, the recent trip to Washington by the Minister of Finance yielded pointers as to the size of the hurdle ahead. What is refreshing though, is the fact that Government must continue to pursue the IMF Staff Monitored programme, as part of a broader agenda towards re-engagement with crucial international resources.

As we hurtle towards pronouncement of the 2014 budget, it remains a very high expectation that the new minister be attuned to realities and needs of the economy.

Last month, the President outlined the economic agenda of the country, effectively cutting the work for the new cabinet.

The economic imperatives of the economy broadly hinge on the revival of agriculture and the attainment of food security, leveraging mining and using these two primary productive sectors to improve the vitality of the manufacturing sector. However, increasing capacity utilization in the manufacturing sector requires more than just pushing for more agricultural production. There are significant infrastructural bottlenecks such as power availability and access to finance. Industry at the moment is unable to re-tool owing to the dearth of long term capital in the economy. Government also needs to deal with external sector imbalances caused by the country's burgeoning import bill against the slow-down in export growth.

The country's water transport infrastructure also needs significant overhaul.

Government must therefore take advantage of the window of opportunity provided for by current price stability to re engineer the economy.

Zimbabwe's economic rebound hinges on fostering private sector-led growth on the back of robust foreign direct investment and other international capital flows.

Last month we highlighted that the major pre occupation of the new 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.

It is encouraging to note that in addition to the trip to Washington by the Minister of Finance and his team, we also saw a swift statement on the cautious indigenization of banks by the Minister of Youth Development and Indigenization and Economic Empowerment.

This recognition that the banking sector is the epicentre of facilitating private sector led economic recovery in the country and therefore the removal of pervasive structural impediments to growth and investment is an imperative for survival.

There seems to be a renewed acceptance that uncertainties engendered by the previous interpretation of the Indigenisation and Economic Empowerment Act have invariably impacted foreign direct investment and continue to intimidate inward capital flows. This has worsened the domestic liquidity crunch resulting in the present dysfunctional financial intermediation environment characterized by high credit costs on the back of high risk of doing business.

The recent visit by the Antwerp World Diamond Council in the wake of the lifting of sanctions against trade in Zimbabwe's diamonds is a good signal. Resolution of issues around the exploitation of the country's 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.

## Global Economic Developments

The following are some of the monthly economic highlights for the month of September.

### United States of America

The re-emergence of fiscal uncertainty in the US has led to a revision of the 2013 growth forecast to 1.6% from 1.7%. The recent budget impasse, which has led to a government shutdown and threatens any agreement on raising the US debt ceiling, could hamper the US recovery. This issue if it remains unresolved, could potentially impact the global economy. In addition, there is the risk that even if the situation is resolved with an agreement to postpone the discussion for another few months as done previously, this prolonged uncertainty could create another drag on the still fragile recovery. The major issue is certainly not so much about short-lived government shutdown, but the necessary increase of the debt ceiling in the second half of October. If an increase would not be implemented, this could ultimately lead the US to default on its sovereign debt, which could create a variety of implications not only for the US economy, but for the global economy, given the central role the US financial system plays within the world economy.



***Stand-off!!! The United States narrowly avoided a calamity following the impasse that threatened a widespread default on US sovereign debt.***

### Japan

Japan continues its expansion backed by ongoing momentum in exports and local stimulus measures. The 2013 forecast has been revised from 1.7% to 1.9%. To tackle the high debt burden, the government has



***Stimulus Package!... The Bank of Japan has injected another 5 trillion Yen to boost the Japanese economy, which of late is enjoying a period of rebound on the back of "Abenomics".***

recently confirmed plans to move ahead with the sales tax increase in April 2014 from currently 5% to 8%. As this event is being considered a potential threat to the still fragile recovery in Japan, a stimulus package of 5 trillion yen (\$50 bn) has also been introduced. This should allow for short-term compensation of a potentially significant negative effect for the economy.

### Euro-zone

The Euro-zone continues to recover from a very low base, after having been in decline for six quarters. The main issues which continue to affect the Euro-zone include economic growth, record unemployment and a still-impaired monetary transition channel. With the latest GDP release, the Euro-zone confirmed the solid momentum of the second quarter and with lead indicators pointing at a continuation of the momentum in the second half, the Euro-zone is expected to manage a

gradual rebound in the next year, when it is expected to grow again for the first time in three years. Despite some improvement in the economy, debt compared to GDP is still increasing, with the exception of Germany, and the weakness of the banking system is adding weight to the ongoing challenges.

### **China**

China's real GDP growth expectation remained unchanged at 7.6% for 2013 and 7.7% for 2014 as the major economic indicators such as industrial production, exports and investment all showed accelerated growth in September.

### **Africa**

Overall, Africa's economic growth has been slightly revised up to 3.9% this month, from 3.8%, mainly due to positive and unexpected momentum noticed in Egypt and Morocco.

### **International Commodity Prices**

On average the prices of Gold and platinum declined during the month of September, exerting pressure on countries dependent on the receipts from the mining sector. Zimbabwe is not spared given the dependence on agriculture and mining as the main source of economic activity and generation of liquidity in a multi-currency system. With the pressure on the balance of payment, foreign currency receipts from the mining sector are supposed to help improve the developments in the external sector developments.

The declines in the prices of the precious metal were due to a variety of reasons. Some of them were:

- The speculations around the FOMC decision with belief that QE3 tapering was imminent
- The ongoing drop in U.S jobless claims during most of September;

- The depreciation of the Indian Rupee may have pulled down the demand for gold in India which is also a leading importer of gold;
- The decision of Indian policymakers to raise the taxes on gold imports;
- The rally of U.S equity markets that serve as an alternative investment for precious metals;
- The depreciation of the Aussie dollar and Canadian dollar

Moving into quarter four, the continued decline in the prices of the precious metals might lead to the revision of the growth targets for the sector and overall the growth rate of the Zimbabwean economy. This would also exert pressure on the balance of payment position which can lead to the widening of the balance of payment deficit.

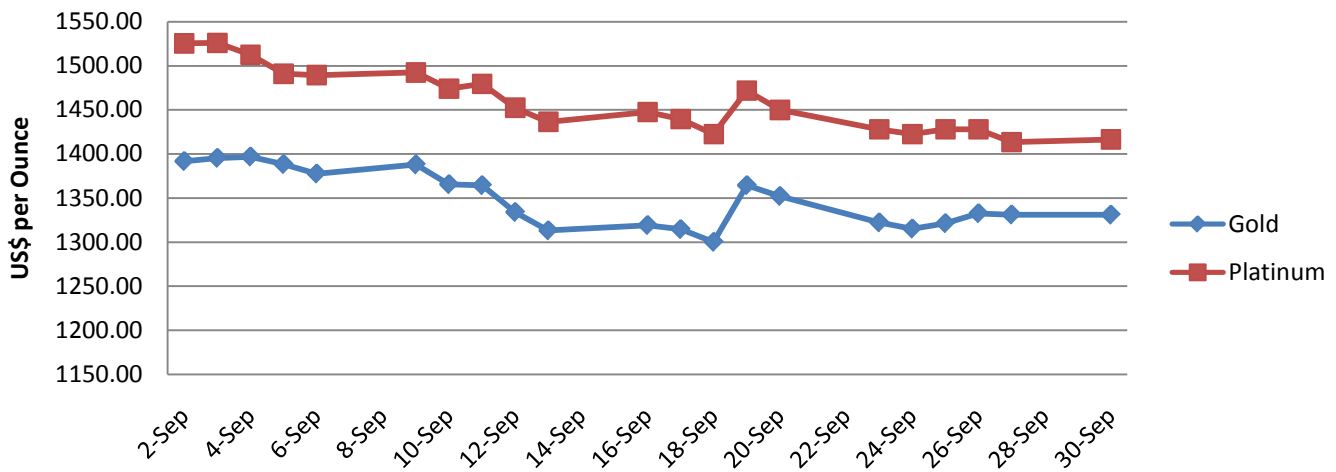
### **Macroeconomic Developments**

The Confederation of Zimbabwe Industries produced its annual Manufacturing Sector Survey which basically gauges the level of economic activity in the country. The results of the 2013 survey reveal slackening economic



***Taking a serious knock!!! Bullion and mineral prices were quoted softer in September***

### Price Movements of Gold and Platinum for the Month of September



activity as overall capacity utilization continued declining from 44.9% in 2012 to 39.6% in 2013. This was after the sector capacity utilization had fallen from 57.2 % to 44.9 % in 2011. This comes at a time real growth in the manufacturing sector has been stagnated since 2011. The sector’s growth was 14.4 % in 2011; 2.3 % last year; and is projected to slow down to 1.5 % this year.

The survey identified the following as some of the fundamental constraints identified affecting the manufacturing sector;

- Working capital constraints
- High cost and lack of access to energy and water.
- Use of antiquated machinery
- High labour costs
- Low domestic demand

The five most problematic infrastructure factors according to the survey are:

1. Power cuts and shortages
2. Water Shortages
3. Poor road Infrastructure
4. Poor road network linking to ports
5. Absence of a well-developed rail network which links

In his foreword the CZI president recommended the following as the solutions to the current challenges facing the industry:

- Access to capital at reasonable rate is needed
- A rational and realistic review of the power industry is needed
- Water and electricity challenges should be addressed as of yesterday
- Protection of local industries from the cheap imports



***Antiquated machinery is now failing to deliver efficiencies.***

## Stock Market Developments

Having tumbled 22% in August in the wake of the announcement of the harmonized election results, the ZSE staged a 10.12% recovery in September with the benchmark industrial index gaining from 181.67 points at the end of August to 200.05 points at the end of September as cheer returned to the market. The mining index however rose a marginal 3.25 in the month from 48.73 points to 50.29 points.

The broad recovery of the market saw the total market capitalization also recover 10.14% to US\$5.157 billion up from US\$4.682 billion at the end of August.

Total market turnover was however down 30.45% to US\$37 million from US\$54 million in the previous month. Foreign trades dominated the market with 61.5% of all share deals by value being conducted by foreign buyers and sellers.



***On a recovery path.... The ZSE is regaining its momentum and remains one of the top performing exchanges in the world on a year to date basis.***

## Banking sector Developments

### Broad Money Supply

Annual broad money growth increased to 5.77 % in August 2013, from 4.26 % in July. This was the first time broad money supply has increased after registering declines for the past three month. The marginal recovery in annual broad money largely reflected deposit maturities being rolled over.

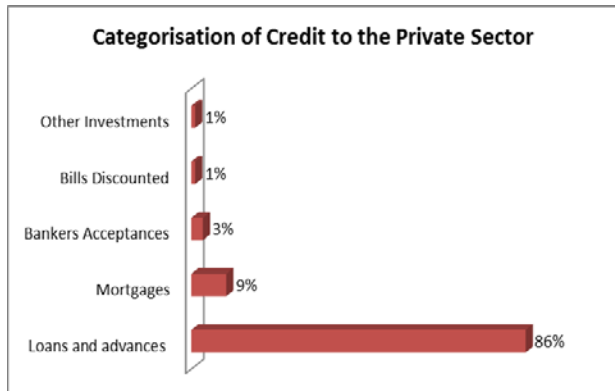
Despite registering an increase in annual broad money supply, the month on month broad money declined by 1.5 % to US\$3 796.24 million in August 2013, from US\$3 854.92 million in July 2013. The decline was mostly as a result of withdraws that was experienced across all the classes of deposits during the month. Major declines in deposits occurred at commercial banks, which registered net outflows across all deposit classes amounting to US\$56.08 million, during the month of August 2013.

The composition of the deposits remains skewed towards short term; under 30day (21 %); Savings; (13 %); demand deposits (52 %) and long term (13%). The problem with decline in the deposits and the deposit architecture is that it constrains the financial institutions from being able to lend long term because the deposits are mostly transitory. This goes against the demands of the local industry which is looking for long term financing to retool their operations and also for critical sectors of the economy such as agriculture which requires medium to long term financing.

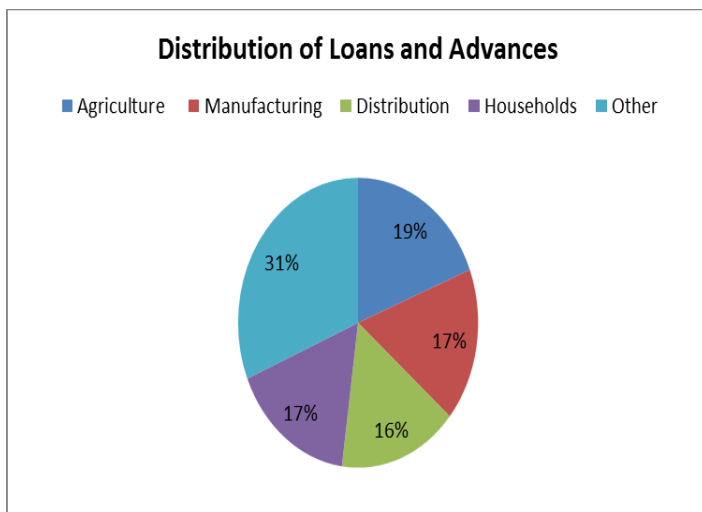
### Credit to the Private Sector

Annual growth in credit to the private sector further declined by 0.71 %age points, from 13.55 % in July to 12.84 % in August 2013. On a month on month basis, credit to the private sector registered a marginal growth of 0.61 % in August 2013, from

US\$3 671.82 million in July 2013 to US\$3 694.33 million. The credit to the private sector was mostly dominated by loans and advances which accounted for 86 % of the total loans and advances.



Cognizant of the impending agricultural season the loans and advances were skewed mostly towards Agriculture which accounted for 19.05 % of all loans and advances. Given the critical importance of the agriculture sector, adequate funding for the sector is important. Properly funded agriculture is critical to economic growth, liquidity generation and food security for the country.



Other sectors to benefit mostly from the loans and advances given by the banks were the Manufacturing sector (17.12%); Distribution (15.99

%) and Households (16.55 %). All other sectors of the economy shared the remaining 31 %. The distribution of the loans and advances is reflective of the importance of the different sectors to driving growth in the country.

Credit to the private sector was mainly utilized for asset purchases (41.23%) as well as inventory build-up (34.74%). Loans and advances utilized for fixed investment activity have remained low, with the procurement of plant and equipment accounting for 2.95% and pre and post shipment financing at 2.21%, of total loans and advances. The low amount of loans and advances earmarked for procurement of plant and machinery is reflective of the short term nature of the financing.

### Banking sector Support to Agriculture

In his presentation at the inaugural dialogue on agro-business, food and nutrition security, the BAZ President, Mr. George Guvamatanga highlighted that the banks have earmarked a total of \$620 million for the 2013/14 agricultural activities. The amount is meant for among other activities fertilizer production, seed production, cattle ranching, horticulture, fruit production, poultry and growing of the various crops. The bulk of the funds have been earmarked for tobacco growing accounting for around 50% of the total earmarked resources. Other major activities which are to benefit from these resources are cotton (7.55%), maize (4.87%), seed houses (4.88%), Horticulture (3.52%), sugar cane (6.94%). The financing of the agricultural sector will come from the different sources. The main sources that the banks will employ will include own funds by the banks, credit guarantees, Agro-Bills, Bank deposits and international credit lines. The process of disbursing the funds was already underway at the different banks which are members of the Banker Association of Zimbabwe.

## **National Payments Systems Developments**

Statistics released by the central bank shows that payment through ZETSS and Cheques declined in August as compared to July while those that were made through the card systems and Mobile & Internet systems increased over the same period.

### ***Zimbabwe Electronic Transfer Settlement System (ZETSS)***

The value of transactions processed through the RTGS system in August 2013 decreased by 15% to US\$3.35 billion from US\$3.96 billion in July 2013. The volume of transactions also registered a decrease of 9%, from 205 854 to 187 747 over the same period.

## ***Card Systems***

The total value of card based transactions rose by 2.23%, from US\$334 million in July to US\$341.5 million in August 2013.

### ***Mobile and Internet Based Transactions***

The value of mobile and internet based transactions also increased by 4.93%, from US\$303.20 million in July to US\$318.16 million in August 2013.

## ***Cheques***

In value terms, cheque transactions decreased from US\$12.30 million in July 2013 to US\$10.45 million in August 2013.



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