Monthly Economic Bulletin

BAZ

Bankers Association of Zimbabwe

November 2013

Editor's Note

The market finally got pointers as to policy direction in October with Government launching the new blue print, ZimAsset. What remains is the 2014 budget, which everyone is looking out for in great anticipation. This will give the final but true position as to where the economy is headed.

The continued slowdown in inflation on the back of what most economists believe are indications of a slowdown in the economy, largely induced by a chronic liquidity crunch are worrisome signs. The soothing factor is however, that the dip in the consumer price index is more a reflection of the "Rand factor". Our huge import bill, which is also very worrisome is primarily a result of imports from South Africa.

Having come from Washington largely empty handed, plans are now afoot by the Government to look east and a visit to China is in the offing with media reports that the country will be seeking for up to US$10 billion in support from Chinese financiers. We sincerely hope this comes through.

As we await the pronouncement of the 2014 budget, now scheduled for mid December, expectations remain that the Minister of Finance will deliver a financial plan that will be attuned to realities and needs of the economy.

It remains without doubt, that the economic imperatives of the economy hinge on the revival of agriculture and the attainment of food and nutrition security, leveraging the mining sector and using the these two primary productive sectors to improve the vitality of the manufacturing sector.

In addition to these, the budget must proffer incentives for increasing capacity utilization in the manufacturing sector whilst at the same time dealing with significant infrastructural bottlenecks such as power availability, the transport sector as well as access to finance.

Industry has been unable to re-tool owing to the chronic cash crunch that has bedeviled the economy.The budget must also as a matter of national survival, address the current external sector imbalances caused by the country's bourgeoning import bill against the slow-down in export growth.Imports continue to outpace exports by a factor of three to one and in the absence of sustainable long term structural changes to this equation, we may face a growing domestic liquidity challenge. This is moreso when one considers that a large chunk of these imports are possibly being financed by the banking sector.

The country's water andtransport infrastructure also needs significant overhaul. Businesses in the manufacturing sector have had to make investments in water systems and depend on internal logistic infrastructure, making local products highly uncompetitive on the shelf. Its even worse when these products are put against those produced outside. We can hardly export competitively.

Government should sieze the window of opportunity provided by current price stability to re engineer the economy.

Overall, Zimbabwe's economy can get on to a sustainable recovery path on the back of export-led growthif robust foreign direct investment and other international capital flows are quickly mobilised.

The country also needs to dramtically create sustainable wage paying jobs.

Themajor 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 creatingsustainable jobs and investment opportunities.The banking sector also has a key role to play in the recovery process. The promotion of a strong savings and credit culture in the economy will improve the level of intermediation and ultimately create sustainable environment for economic growth. Zimbabweans must be encouraged to save to improve the liquidity in the banking sector. In equal measure there must be strong encouragement for those that have borrowed depositors' funds to repay, so that the little we have goes around.

Global Economic Developments

Japan's recovery continues, backed by ongoing momentum in exports and local stimulus measures. The GDP growth forecast for Japan remains unchanged at 1.9% for 2013 and 1.5% for 2014. The country is poised to move ahead with a planned sales tax increase in April 2014 and the necessity of fiscal consolidation has been made clear by the government highlighting that Japan has no choice but to accomplish economic recovery and fiscal consolidation at the same time. According to the IMF estimates, gross debt to GDP in Japan will stand at 244% in 2013 and will be only negligibly lower in the coming year. The budget deficit is forecast at 9.5%. These debt levels are extraordinary and can only be sustained as Japan is funding most of this debt domestically. But it seems obvious that while it still can enjoy these high debt levels, it will also need to bring it down in order not to risk unwanted financial repercussion somewhere in its economic future.

The Euro-zone's recovery continues, after it had moved out of recession in the second quarter. However, as it has been also reflected in the recent statements of the European Central Bank (ECB), the recovery is modest and remains fragile. Some indicators point at an improvement in the Euro-zone's output, while mainly the situation of the monetary side of the economy is becoming increasingly challenging. The monetary transmission channel is still largely impaired, inflation for the Euro-zone is at a record low and the banking sector remains weak. In fact, it is keeping financial intermediaries from expanding loan creation and instead focused on shoring up their balance sheets.

Brazil's GDP forecast remains at 2.5% and 2.8% for 2013 and 2014, respectively. The recent fiscal performance of Brazil's federal government aimed at supporting the economy is having a negative effect. The government has cut taxes and increased spending to revive economic growth that continues to falter amid above-target inflation. The budget balance of the federal government, excluding interest rate payments, surged to a deficit of 10.5 billion Reals from a surplus of 87 million Reals a month earlier, according to the National Treasury's report. This might endanger the country's credit rating, putting it at risk of being downgraded which would be considered an indication of higher investment risk and lead to higher borrowing cost and less investment inflows.

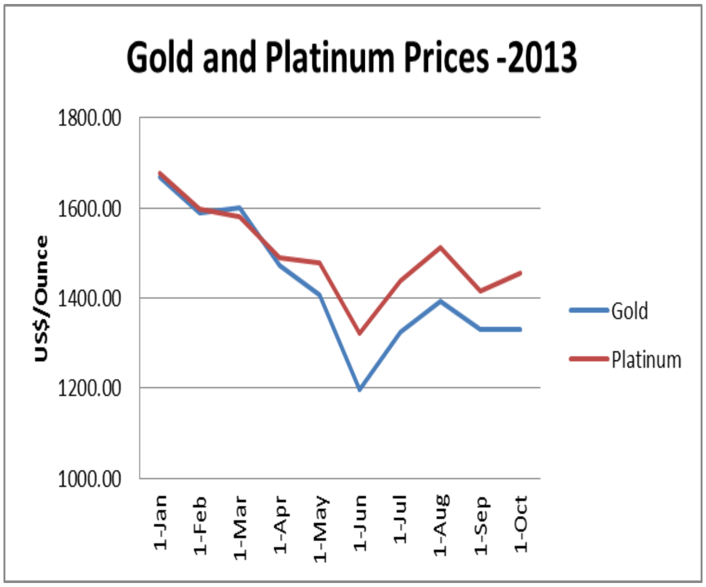
India -The wider economic picture in India is looking even less promising, adding to the external sector vulnerabilities. The deceleration is broad based, but the industrial sector has borne the brunt of the slowdown. Manufacturing growth, hit by weak export demand and tight credit. On the demand side, investment and savings dried up and resuming robust capital spending will be essential to revive India's growth momentum. Rising domestic savings, followed by strong investment have been the key to the country's sustainable high growth in the past decade. However, savings and investment patterns have worsened substantially since the 2008 global financial crisis, with the share of fixed investment to GDP falling to 29% in FY 2012, down from a peak of 33% in FY 2007, with almost a half of it taking place in the less productive household sector.

South Africa's manufacturing PMI had improved marginally last month after a sharp fall in September. The index rose to 50.7 from 50.0 in the previous month. The modest recovery came after the index fell to an eight-month low in September as a strike in the auto sector hurt new sales orders. The index is still remained below the average reading of 52.7 for the 3Q13. It is expected that conditions will remain restrained as some labour disputes from September spilled over into October. Further strikes by mining and construction workers are possible in the coming few weeks. Gold companies last month reached a wage pact with all labour groups except the Association of Mineworkers and Construction Union which represents 19% of miners.

International Commodity Prices

Since mid-April, and particularly since June, commodity prices have recovered up to the end of the 3Q, when confidence increased about a recovery in developed economies and a turnaround of the deceleration in

China and Brazil became obvious. Since then on average, commodity prices have again retreated back to around the relatively lower April/May levels.



The reasons for the again increased weakness are manifold.

Sharply declining inflation, which in the Euro-zone now stands at only 0.7% y-o-y in September and at 1.2% y-o-y for the US

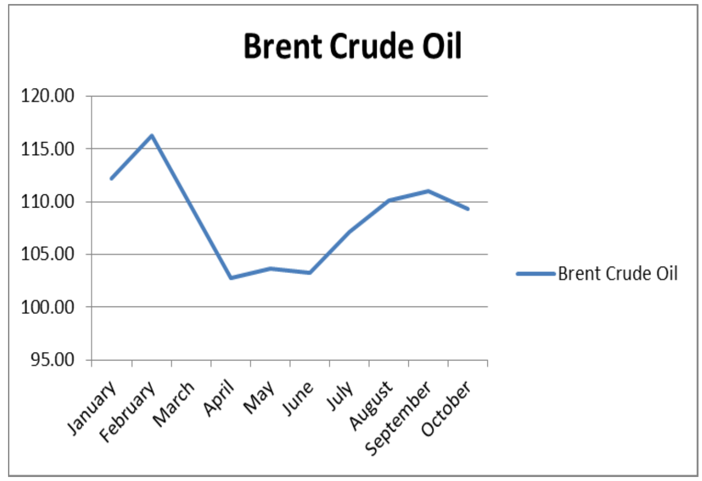
The rising US dollar, which might continue rising and hence influence prices negatively.

China's regaining momentum, however, should put a floor to the decline

The expectation of a rebound in India next year, prices are not expected to decline much further.

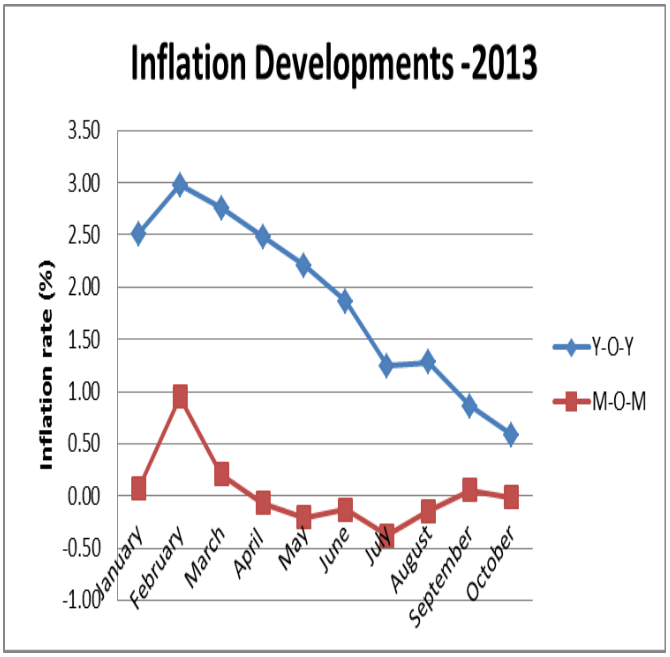
The possible tapering of the Fed is forecast to be gradual and, hence, most of the negative impact from the paper market

The supply situation in industrial metals and also bulk commodities is forecast to keep prices from rising significantly in the short- to the medium-terms.



Inflation- CPI Developments

The year on year inflation rate dropped for the second consecutive monthin October from the September rate of 0.86 percent to 0.59 percent in October 2013. The rate of inflation had declined for the first time to be low 1 percent mark in 2013 in September and it seems the rate might close the year at below the 1 percent mark. This means that prices as measured by the all items CPI increased by an average of 0.86 percentage points between September 2012 and September 2013 but slowed down further by 0.59 percent between October 2012 and October 2013. The decline in the annual rate of inflation was mostly driven by the decline in the following categories; communication; Food and non alcoholic beverages; furniture and household equipment and miscelaneous goods and services. The decline in the annual rate of inflation means the government will be able to meet the revised target of 3.4 percent by the end of the year and the country will be having the lowest rate of inflation in the whole SADC region. The softening of the South African Rand has contributed immensely to the decline in inflation rate as South Africa is the major trading partner of the Zimbabwe contributing greatly to the external sector developments. International oil prices are also the other major contributor to inflation in the country and these have not been very volatile over the year hence contributing to the stability in the prices in the country.



The month on month inflation rate in October was -0.01 percent shedding 0.06 percent from the September rate. This means that prices as measured by the all items CPI decelerated at an average rate of 0.01 percent from September 2013 to October. The month on month Food and Non Alcoholic Beverages inflation stood at 0.04 percent in October 2013, shedding 0.22 percentage points on the September 2013 rate of -0.18 percent. The month on month non-food inflation stood at -0.04 percent, shedding 0.21 percentage points on the September 2013 rate of 0.17 percent

Macroeconomic Developments

The government of Zimbabwe has developed a new economic blue print (Zim Asset) to guide the country for the next five years. The Plan is expected to run from October 2013- December 2018. The implementation of the Plan will be trough a two phased plan with Quick Wins being implemented between 2013 and 2015, whilst the second phase covers the period 2016 to 2018. The implementation of the Plan will be hinged on four strategic clusters identified are:

- Food Security and Nutrition;
- Social Services and Poverty Eradication;
- Infrastructure and Utilities; and
- Value Addition and Beneficiation

During the plan period, the economy is projected to grow by an average of 7.3%. It is expected to grow by 3.4% in 2013 and 6.1% in 2014 and continue on an upward growth trajectory to 9.9% by 2018

The attainment of the above projected targets will be based on the following assumptions:

Improved liquidity and access to credit by key sectors of the economy such as agriculture;

Establishment of a Sovereign Wealth Fund;

Improved revenue collection from key sectors of the economy such as mining;

Increased investment in infrastructure

Increased Foreign Direct Investment (FDI) into Zimbabwe;

Establishment of Special Economic Zones;

Continued use of the multi-currency system;

Effective implementation of Value Addition policies and strategies;

Improved electricity and water supply

Some of the issues that will impact on the banking sector as enunciated in the Zim Asset are:

During the implementation of the Plan- there will be a review of interest rates on loans and transaction costs. It is not clear how this will differ from the current MoU signed between banks and the RBZ.

Increased Foreign Direct Investment (FDI) into Zimbabwe, hence the amount of liquidity in the economy will increase allowing banks to increase the flowing into the sector

Strong collaborative partnerships among Government agencies, the private sector, citizens and other stakeholders hence the banks will need to play an intermediary role as the parties roll out various programmes

Table 1: Growth targets for Zim Asset

Sector	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
	Proj. %	Proj. %	Proj. %	Proj. %	Proj. %	Proj. %
Agriculture, hunting and fishing	-1.3	9.0	5.1	4.5	7.4	12.0
Mining and quarrying	4.5	9.8	9.0	7.0	10.5	11.7
Manufacturing	1.5	3.2	6.5	7.5	7.7	10.0
Electricity and water	6.3	4.5	6.0	9.8	11.0	16.0
Construction	12.5	14.0	15.4	16.8	18.2	19.6
Finance and insurance	2.2	6.1	6.1	5.8	7.5	9.7
Real estate	12.5	14.0	15.4	16.8	18.2	19.6
Distribution, hotels and restaurants	3.1	4.9	4.9	4.7	6.6	8.8
Transport and communication	3.4	4.6	5.5	5.3	5.4	6.0
Public administration	5.2	4.2	3.0	3.5	2.4	1.8
Education	5.5	4.0	4.5	5.0	4.5	4.4
Health	4.3	3.4	4.3	6.2	2.0	2.0
Domestic services	1.5	1.5	2.0	1.8	2.1	2.2
Other services	2.5	2.5	3.0	2.5	2.8	2.8
GDP at market prices	3.4	6.2	6.4	6.5	7.9	9.9

Source: Ministry of Finance and Economic Development

The attainment of the above projected targets will be based on the following assumptions:

Improved liquidity and access to credit by key sectors of the economy such as agriculture;

Establishment of a Sovereign Wealth Fund;

Improved revenue collection from key sectors of the economy such as mining;

Increased investment in infrastructure

Increased Foreign Direct Investment (FDI) into Zimbabwe;

Establishment of Special Economic Zones;

Continued use of the multi-currency system;

Effective implementation of Value Addition policies and strategies;

Improved electricity and water supply

Some of the issues that will impact on the banking sector as enunciated in the Zim Asset are:

During the implementation of the Plan- there will be a review of interest rates on loans and transaction costs. It is not clear how this will differ from the current MoU signed between banks and the RBZ.

Increased Foreign Direct Investment (FDI) into Zimbabwe, hence the amount of liquidity in the economy will increase allowing banks to increase the flowing into the sector

Strong collaborative partnerships among Government agencies, the private sector, citizens and other stakeholders hence the banks will need to play an intermediary role as the parties roll out various programmes

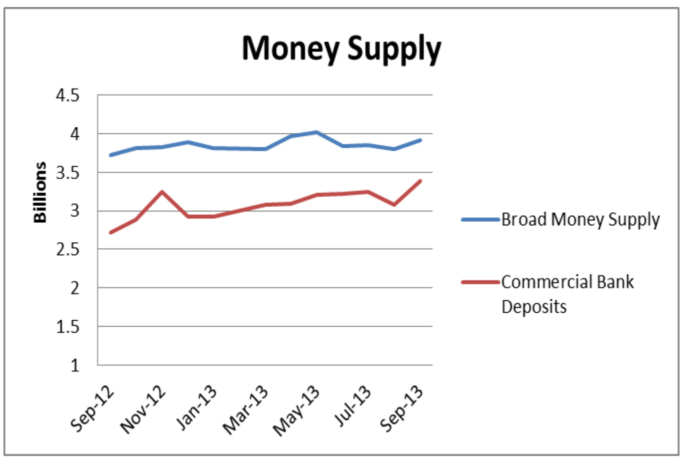
The Government will re-establish financial support for agriculture so that farmers will increase production, productivity and product quality.

The Government will mobilise funding from its own local resources hence improving scope for banks to increase their financial intermediation process.

Monetary Sector Developments

Money supply growth increased on a monthly basis but declined on an annual basis according to the latest statistic released by the Reserve Bank. On a month on month basis, money supply recorded an increase of 3.01% to US$3 910.66 million in September 2013, from US$3 796.24 million in August.

The increase in money supply experienced over the period August to September was mostly as a result of the inflows registered by the commercial banks over the period. Commercial Banks recorded increased inflows of US$87.83 million. This was driven mainly by the confidence that is creeping back into the economy in the post-election period as those who were taking a 'wait and see' position are now seeking opportunities. There is high chance that the broad money supply might surpass the $4 Billion mark before the close of the year.

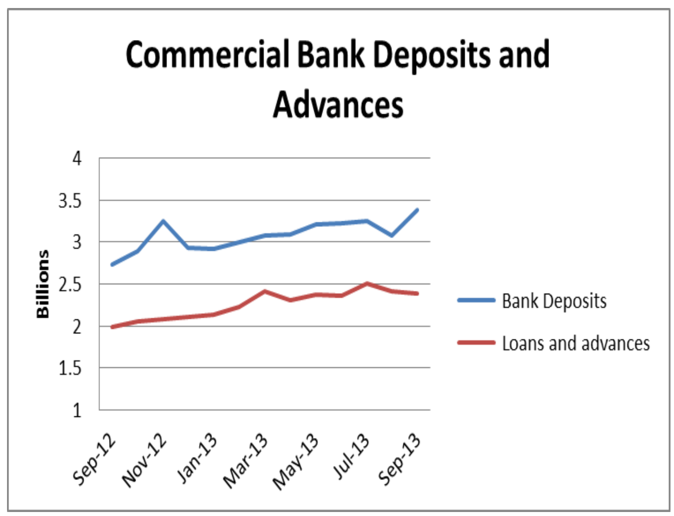


The highest level of Broad Money Supply was achieved in May, when it surpassed the US$ 4 Billion dollar mark at US$ 4, 018. 142 Million. Despite the increase in the broad money supply experienced on a monthly basis, on an annual basis broad money supply growth declined. Annual broad money growth declined from 5.77% in August 2013 to 4.89% in September 2013.

Broad Money Supply is dominated by commercial Bank deposit. Commercial Bank deposits were at US3, 383, 453 Million as at the end of September 2013. The bulk of the deposits in the Commercial Banks were from Services (28.7%); Individuals (15.7%); Manufacturing (14.7%); Distribution (13.7%) while the least deposits were from; Transport (1.7%); Construction (2.1%) and Agriculture (3.6%) and Mining (3.7%).

Credit to the Private Sector

The amount of credit advanced to the private sector by 0.64% in September 2013, from US$3 694.33 million in August 2013 to US$3 717.87 million. While the banking sector registered a surge in credit to the private sector on a month on month basis, the picture was different on an annual basis. Annual growth in credit to the private sector, further declined by 1.88 percentage points, from 12.84% in August to 10.96% in September. The distribution of the credit to the private sector was composed as follows; (16.71%), agriculture (18.38%) and distribution (16.72%) activities. Households accounted for 17.77% of total loans and advances to the private sector.



Commercial bank loans and advances have been trending the commercial bank deposits since last year. There is a positive correlation that has been witnessed over the multi-currency period where deposits and loans have been moving in the same direction. This shows that the banks have been relying more on the deposits into the banking sector to be able to lend out to the private sector. The policy implication of this phenomenon is that there is need for policy measure that will enhance deposits so that sectors in need of credit are able to get it.

The loan to deposit ratio declined to 95.07% in September 2013, compared to 97.32% in August 2013. This means that banks in September were able to lend US$95.05 for every $100 they had taken in as deposits. International best practice shows that this is too high a ratio but in Zimbabwean case the appetite for resources is high hence forcing banks to lend out more. Despite the high loan to deposit ratio the country still need to look for other sources of funds especially offshore and boosting export proceeds.

Stock Market Developments

The Zimbabwe Stock Exchange (ZSE) has been on a strong recovery path in the last few months. The local bourse continued its rally, putting on a 5,85% gain in market capitalization to US$5.407 billion as at 31st October 2013 from US$5.107 billion a month earlier

The ongoing rally has made the ZSE the place to be for investors in 2013 as the market has been on a strong and resilient growth path for the year. The total market cap has gone from US$3.963 billion at 31 December 2012 to the current level representing a huge 36% gain in value for ZSE investors. The market peaked at a US$6,005 billion in July before retreating to US$4.682 billion after the harmonized elections in a sentiment related sell-off.

This rally, which been for the greater part of 2013, despite the deteriorating levels of economic activity in the country remain a conundrum for economists given the country's fast deteriorating fundamentals.

Local investors have been hamstrung by liquidity challenges, and the market has been primarily driven by foreign investors who now account for the bulk of trades on the ZSE in terms of value.

However, in October local trades dominated the market in term of volumes of shares whilst foreigners still dominated the value of trade. This indicates that local investors are playing largely in the penny stocks whilst he foreigners are dominating trades in the blue chips and large cap stocks. Total turnover by volume of shares traded in October was 603 million shares worth USD$44,582 million whilst total turnover volumes for foreign buyers and sellers was about 214 million shares.

For the year to date the total value of trades on the ZSE was US$420 million as at 18 November 2013, with foreign investors accounting for US$411million worth of trades.

The ZSE continues to be an important source or liquidity inflows into the country if one considers that total foreign "purchase trades " (US$ inflows) were worthUS$250 million, whilst foreign "Sell trades " (outflows) were valued at US$161 million. This translates into a net liquidity inflow of US$89 million into the economy through ZSE so far this year.

The attractions for investing on the ZSE despite deteriorating fundamentals remain principally the fact that dollarization in 2009 eliminated foreign exchange risks that were associated with translating portfolio values to US$ on exit. The fact that now trading on the ZSE is conducted in US dollars, has eliminated these currency risks for those offshore investors.

Another positive factor is that in 2009, the country effectively removed barriers to capital flow for foreign portfolio investments through the implementation of favourable dividend and capital repatriation policies. These have also positively impacted the market and contributed to the increased flow of foreign capital on the ZSE. Stringent exchange controls often hinder foreign portfolio flows on via stock markets in many emerging economies.

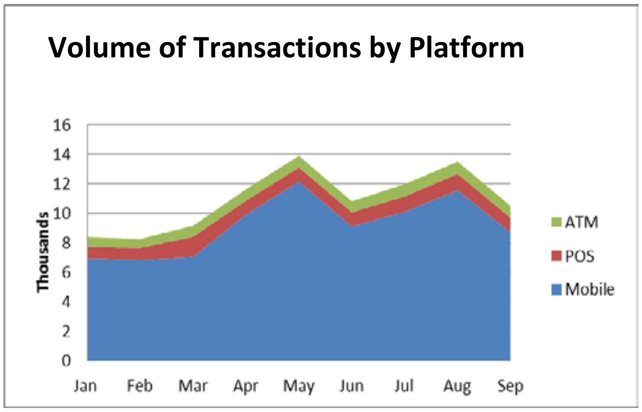
Financial reporting by local entities is now also denominated in US$ making it easier for foreign fund managers to do analyses and peer comparisons.

The upward trend on the ZSE should however plateau off in December as the traditional year-end liquidity sell off and portfolio realignment by investors kicks in.
The ZSE Indices also firmed in sympathy during the month of October with the benchmark ZSE Industrial index gaining 4.84% from 200.05 points to 209.74 points whilst the mining index closed October at 52.68 or 4.75% up from 50.29 in September

National Payments Systems Developments

The value of transactions processed through the RTGS system in September 2013 increased by 2% to US$3.409 billion, from US$3.351 billion in August 2013 whilst the value of mobile and internet based transactions also decreased marginally by 0.85%, from US$318.16 million in August to US$315.45 million in September 2013.

In value terms, cheque transactions increased from US$10.45 million in August 2013 to US$13.34 million in September 2013.



The ZETSS and retail payment transactional activity during the month of September took a downward trend with the volume of transactions declining by; Mobile based transactions (24.7%); Point of Sale (9.9%) and ATM (3.2%).

Disclaimer Notice

While sources used in preparation of this economic report are believed to be reliable, the BAZ makes no 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 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