Monthly Economic Bulletin

Bankers Association of Zimbabwe

January 2014

Editor's Note

A month into the budget we would have hoped to release this month's edition after the pronouncement of the Monetary Policy Statement. The budget statement given by the Minister of Finance on 19th December 2013 gave the economy a clear directionon how things are likely to unfold in 2014.

The Minister of Finance clearly stated that his 2014 budget was "Policy Driven" referring largely to the fact that it was the first financial plan that would kick off Government's Zim-Asset programme.

Everyone is now looking out for the up-coming monetary policy statement, that is not only expected to support and enhance the Government's aspirations as outlined in the budget, but also deal with any important policy issues that the budget may not have adequately addressed in detail.

The MPC will thus give the more complete picture as to where the economy will be headed in 2014.

We do not anticipate the MPC will differ much if at all in terms of growth aggregates pronounced by the Minister of Finance in December. The MoF projected GDP growth at 6.1%, but our considered view is that this is likely to be reviewed down by mid-year 2014. This is especially likely given that the Ministers own inflation outlook, with annual inflation coming in at 0,33% in December 2013points to a further continued slowdown in inflation, on the back of what most economists believe are indications of the overall slowdown in the economy and the significant "Rand factor". This economic slow down blamed largely on the country's chronic liquidity crunch, that has stalled the rejuvenation of the productive sectors, remains a worrisome development. As far as the banking sector is concerned, the pronounced 2014 budget was well in tune with the

realities of the economy and the Minister dealt in some large measure with some of the issues affecting the banking sector, which he acknowledged as the lifeblood of the economy.

The anticipation now is that the Monetary policy will put into concrete operational and policy terms, the aspirations of the Ministry of Finance, particularly with respect to dealing with the issues surrounding the sensitivities around the capitalization of banking institutions; the increasing burden of non-performing loans in the banking sector; the absence of inter-bank market trading; and the lack of confidence in the financial sector; and overall market liquidity. The RBZ should also hopefully make policy pronouncements that favour the promotion of formal banking by the majority of the population, which has become under banked or unbanked.

We believe the MPC will not only be supportive of the restoration of confidence in the banking sector, but will also deal with the broader monetary, and external sector issues that are affecting the economy.

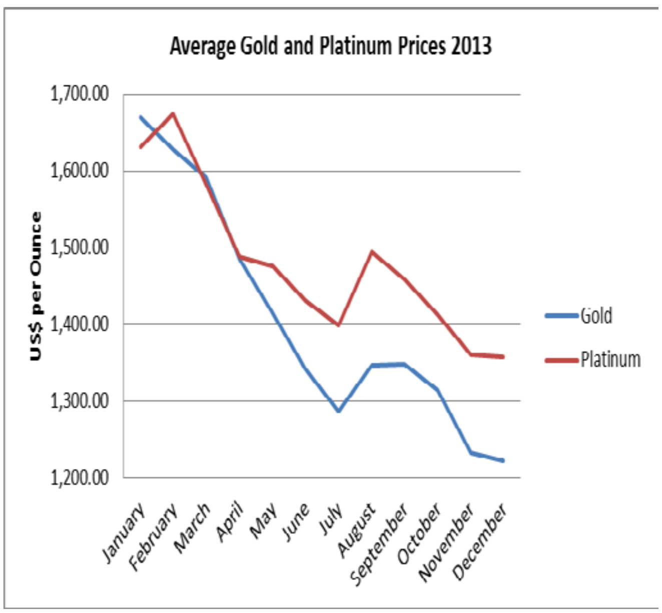
Very promising tax concessions were given to the banking sector in order to promote investment in new housing, support the SME sector through financial inclusion, and the promotion of long term savings in the economy. These should be encapsulated in the MPC.

The RBZ should also outline policy recommendations that articulate clearly how Government will deal with 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, the country faces significant leakages of both liquidity and revenues. The MoF observed correctly that a significant grey economy has emerged and is funding the import gap together with legal flows from remittances. Perhaps it is time that a policy framework to formally harness the informal economy in the mainstream economy is here. The banking sector can and should certainly take a lead in this, and the Central Bank can set the right tone.

World Economic Developments

International Commodity Prices

International commodity prices declined significantly during 2013 at the backdrop of reduced demand of the commodities by the traditional consumers of these commodities including India, Russia, china and others. Gold prices which averaged US$ 1669 per ounce in January 2013 closed the year at US$ 1203 per ounce while Platinum prices closed the year at US$ 1 357 per Ounce after the opening the year at an average price of US$1631 in January 2013. This decline came at the time the majority of the mining houses in the country were facing viability problems and rising costs of production.



The declining trend in the prices of both Gold and Platinum were contributory factors towards the liquidity problems in the country given that growth in the economy was underpinned by the growth in the mining sector. If the trend is continue in 2014, there is the likelihood that the growth projection of the economy will be missed. The mining sector is projected to grow by 9.8 percent this year according to the ZimAsset program. If the target is to be missed this will have extended repercussions to the fiscal revenue as taxes and Royalties will fall and the retrenchments in the sector will continue as companies will be trying to contain costs.

The declining prices of the international commodity prices are hindrance to any prospects of beneficiation given that investment in such ventures is expensive requiring lots of resources. Drafting of any bankable proposals under such situations is difficult and such proposals cannot easily pass various means tests for scrutiny.

2014 National Budget and the Banking Sector

The Minister of Finance and Economic Development presented his 2014 Budget statement on 19 December 2013 where he outlined various policy proposals and tabled the revenue and expenditure proposals for the country. The strength of the budget was around the various policy pronouncements that were outlined and clarified some of which had the effect of moving towards restoring the general public's confidence in the banking system.

The following were some of the banking sector related policy measures announced by the Minister;

1. The Government will be maintaining the current levels of Banks' capitalization in order not to further strain this sector which is critical for the sustenance of the economy and clarifications will be contained in the forthcoming Monetary Policy Statement.
2. The Reserve Bank and the Bankers Association of Zimbabwe will be finalizing the necessary legal framework for the creation of Credit Reference Bureau as way of dealing with the problem of increasing Non-Performing Loans.
3. Banks were asked to exercise restraint in determining their Bank charges in the

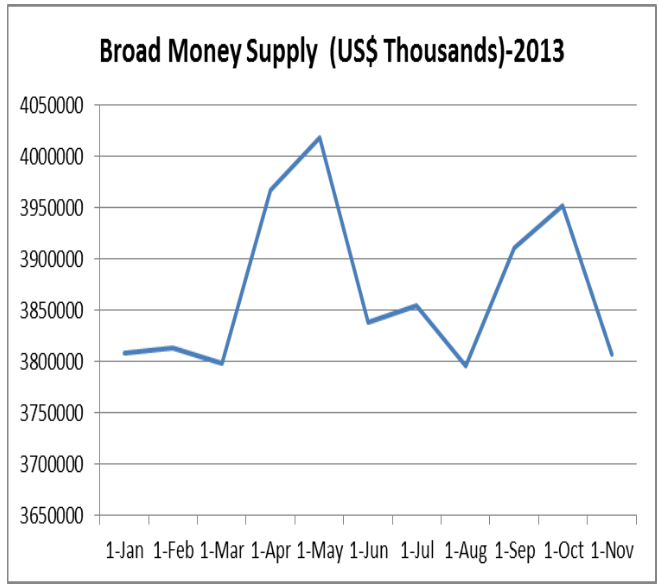
absence of the MoU as the Government will not hesitate to regulate Bank charges and interest rates if Banks fail to self-regulate.

4. Government is going to introduce a US$100 million Interbank Programme supported by an international Bank, the African Export-Import Bank, as a guarantor with effect from 1 April 2014.
5. Government will be issuing out the requisite 5 year debt instruments to local financial institutions and other players who were owed by the Reserve Bank, and this will be done by 31 March 2013. RBZ domestic debt stock of US$754 million.
6. Government is going to capitalize the Central Bank to the tune of US$150–200 million. This measure is meant to provide liquidity support to the financial sector and ensures that the Central Bank plays its Lender of Last Resort function and this should be done by 31 March 2014.
7. The financial services sector was asked to adjust their lending policies to provide an appropriate response to the new agricultural production clientele and SMEs.
8. Government challenged the financial services sector to come up with innovative ways to tap into the unbanked population. There is need for the Banking sector to speed up the programmes around financial inclusion.
9. The Reserve Bank is reviewing the regulatory framework to cover all aspects of mobile Banking. The necessary details for the Financial Services Awareness Strategy are being finalized and are being coordinated by the Reserve Bank.
10. Levies that Banks will be paying to the DPC were reduced from 0.3% to 0.2% of total deposits without fixing a cap, but excluding Government deposits and foreign lines of credit and this will take effect in 2014.
11. All financial sector players were asked to comply with the levy regime for 2013.
12. The Special Levy of US$7.6 million introduced through the 2013 budget is set aside.
13. In line with the COMESA framework the Government will introduce the Financial Regulators Forum, comprising of the Insurance and Pensions Commission, Deposit Protection Corporation, Securities Commission, and Reserve Bank, served by the necessary Multi-sectoral Financial Stability Committees.
14. In order to avoid side marketing of Agricultural commodities the Agricultural Marketing was asked to restore an effective stop order system to allow Banks to finance agriculture.
15. The Government undertook to demonetize all Zimbabwe dollar bank balances, including Zimbabwe dollar Paid up Permanent Shares (PUPS) with financial institutions' books as at 31 January 2009 and US $ 20 million was set aside for this initiative. Banks will be issued with Treasury Bills for them to further credit customers Bank accounts and these TBs shall have Tier One Capital Status.
16. Mobile Network Operators are to be levied an intermediated money transfer tax of US$0.05 per transaction whenever a transfer of funds occurs between two persons using the mobile platform service.
17. The Government proposed to extend the exemption from income tax to receipts and accruals on mortgage finance offered by other financial institutions with effect from 1 January 2013.

The above measures if properly implemented have the potential to restore the confidence in the Banking sector. The most important thing that would further ensure the success of these measures would be policy consistency and the development of a culture of credibility.

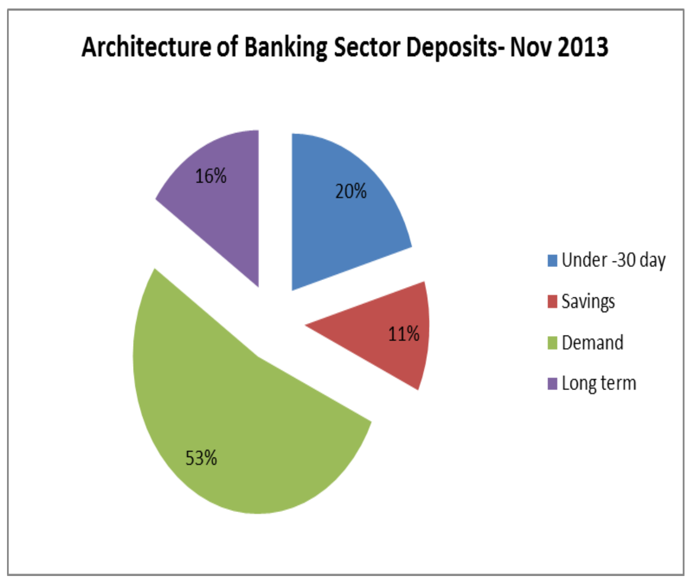
Monetary Developments

Broad Money supply which peaked in May and breached the US$ 4 Billion marks before decelerating in June. Since August broad money supply had been on upward trend but the trend was reversed in November when the broad money supply declined by US$144.6 million (3.66%) to US$3 807.1 million in November, from US$3 951.7 million in October 2013. The decline has been attributed to the panic withdrawals experienced by the banking sector in November. The panic arose as a result of the liquidity challenges which were being experienced at some banks characterized by queues and in some instances withdrawal limits as a way of managing the little cash that was available. It has now become a seasonal factor that the months of November and December the banking sector faces a temporary shortfall in liquidity as the people demand more cash as a result of bonuses and increased demand for cash to spend over the festive holidays.



Composition of Banking sector Deposits

The banking sector deposits continue to be short term. Of the total deposits with the banking sector players only 15.5 percent is long term, the rest of the deposits are short term in nature. This composition is the major factor determining the lending decisions of the banks.



The composition of the deposits continues to have the detrimental effect of reducing the capacity of the banks to lend long term hence depriving the country of long term capital funding. This has been the situation since the country adopted the multi-currency system and our sources of financing remain limited. Lines of credit to the country continue to be evasive and the limited that are coming though into the country are expensive given the risk premium associated with the country. There is need for correct consistent policies to be put in place so as to attract lines of credit and foreign direct to improve the liquidity situation in the country.

Credit to the Private Sector

The banking sector credit to the private sector declined by 0.58% on a month on month basis given the reduced lending by banks during the month of November. Credit to the private sector took the form of loans and advances contributing 83.8%; mortgages advanced by building societies, 9.8%; bills discounted 2.7%; bankers' acceptances and other investments stood at 1.9%.

The total amount of loans and advances in the Commercial Banks books was US$ 2.45 Billion. An analysis of the distribution of the Commercial Banks Loans and Advances shows that the major beneficial sectors of the economy were Distribution (20 percent); Agriculture(19.9 percent); Manufacturing (17 percent); Individuals (15.1 percent). The Mining sector another of the economy only accounted for 4.8 percent of the total loans and advances from the commercial banks translating to US$ 117 Million while the construction sector only has a share of 1.6 percent of the total advances. The smaller shares from these two sectors are mostly contributed to the tenure of the money that is currently on the market. The two sectors usually require long term financing hence the non-suitability of the current resources. The Mining sector could also have been affected by the declining international commodity prices which were experienced during the course of 2013 which discouraged mining houses from further undertaking investments.

Apart from promoting exports, the country needs to dramatically increase the number of sustainable wage paying jobs in the economy.

ZSE Developments

The Zimbabwe Stock Exchange rewarded its faithful investors who stuck around for all of 2013 with a massive 32,6% year on year return.

A good year for the local stock exchange, which placed it amongst the6 best performing stock exchanges in Africa after Nigeria and Kenya.

All this in a year when tight domestic liquidity was shrugged off to ensure that an overall US$485million worth of shares exchanged hands across the ZSE in 2013, the highest value traded since dollarization.

Market turnover thus came in at less that 10% of the market capitalization of US$5.2billion highlighting the tightness of our liquidity constraints.

Beyond the Limpopo, the J.S.E. All share index value traded was a staggering US$181billion or close to

50% of the total market cap, demonstrating that our own market has a very long way to go.

For the ZSE, foreign participation came in at 50% on the ZSE in 2013, with net foreign inflows coming

in at a respectable US$96million.

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For any comments contact us at the following

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