Monthly Economic Bulletin

June 2014

Editor's Note

Where is the economy headed? That perhaps is the question on everyone's mind at the moment and sadly, there doesn't seem to be an easy answer to that one.

Conventional thinking, and of course, all the signs are present!! Suggests that the economy has hit low gear.

Developments on the inflation front, with the May CPI returning at minus 0,19% year-on-year, reflects a consolidation of deflation in the economy, despite the positive 0.07% uptick from minus 0.26% in April. The liquidity situation in the economy is not helping either. Despite a modest 3.3% increase in broad money on a month on month basis during the month of April, the economy is slowing down and the

Overall liquidity situation in the economy does not seem to be improving as each day passes.

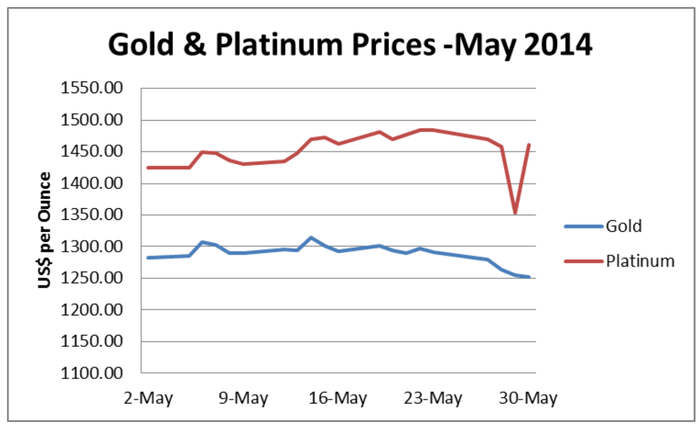
Aside from a stretched fiscal position, recent reports by government arms responsible for revenue collection seem to suggest that inflows into the fiscus are also increasingly becoming subdued, with revenue authorities coming out to encourage a widening of the tax net to include informal sector players. Some reports attributed to the Ministry of Finance also suggest a worsening of the country's trade deficit, with some estimates currently suggesting that imports are exceeding exports by over US$200 million on a monthly basis. Given the size of our economy, that's a huge hole we are digging! As a country, we are clearly spending more than we are earning and that can never be sustainable.

The inevitable result is the unenviable decline in the volume of credit in the economy. The slow down in the economy is discouraging for banks, who have to curtail credit in order to safeguard liquidity by taking lower risks. This will create a further tightening of liquidity, creating a vicious cycle from which it will be difficult for the economy to emerge without a major external injection of capital.

World Economic Developments

International Commodity Prices

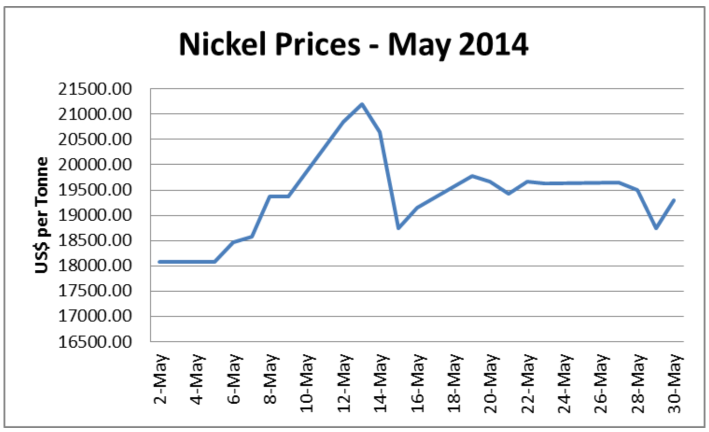
Prices of Gold and Platinum were not stable during the month of May. The average price of Gold declined during May as compared to the previous month of April. The average price of Gold recorded in April was US$1298.40 before sliding to average US$ 1289.06. Gold was relatively flat during the first couple of weeks of May, only to tumble down at the end of the month. Their decline coincided with the rally in the stock market and the depreciation of the US dollar against the Canadian dollar, Aussie dollar and Japanese yen.



Meanwhile the average price of platinum increased from the US$1431.40 per Ounce recorded in April to May average of US$1451.79 per Ounce. This is despite the fact that more than 70,000 South African platinum miners have been on strike since late January and months of negotiations have done little to bridge the gap between miners' wage demands and the producers' offer. The effect on the prices has been minimal because stockpiled supplies had insulated the market from the strike and kept prices stable.

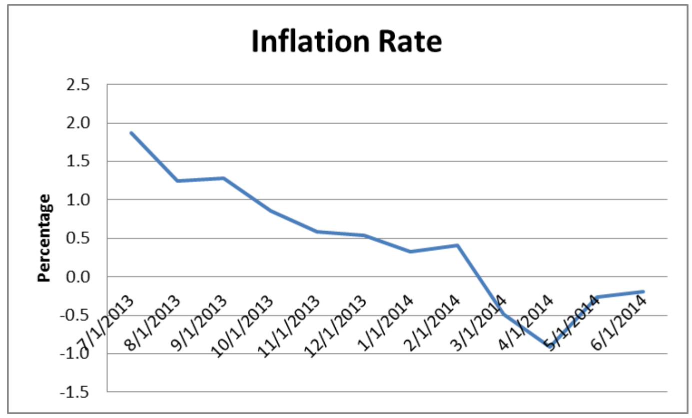
The striking miners work for Anglo American Platinum, Impala Platinum Holdings, and Lonmin PLC. The idled operations represent 60% of South Africa's platinum and palladium capacity. South Africa is the major producer of Platinum.

Nickel has been on an upward trend since the beginning of the year. In January, it averaged US$14096.36 which has since increased to US$19396.25 in May. Developments currently taking place on the international market show that stockpiles of the metal surged the most in more than five years to a record, easing supply concerns. This phenomenon is likely to push down the prices of Nickel. It is encouraging for Zimbabwe that Nickel continues on the increasing trend to allow the major Nickel producer in the country to go full throttle in production. This would allow the retention of jobs and increase liquidity in the country.



Macroeconomic Developments

The deflation spiral continued in the month of May. Inflation remained in the negative territory. The year on year inflation rate for the month of May 2014 as measured by the all items Consumer Price Index stood at -0.19 percent, gaining 0.07 percentage points on the April 2014 rate of -0.26 percent. This has been the fourth consecutive month with inflation in the negative territory. Experiences from other countries who experienced similar situation of negative inflation reveal that controlling for deflation is more difficult compared to controlling for inflation. It is important that the country crafts measures that will try and arrest the situation. Among the measures are measures to tackle the liquidity constraints, capacity underutilization, and reduction of the import bill to sustainable levels and availability of constant supply of utilities (water, electricity and other energy sources).

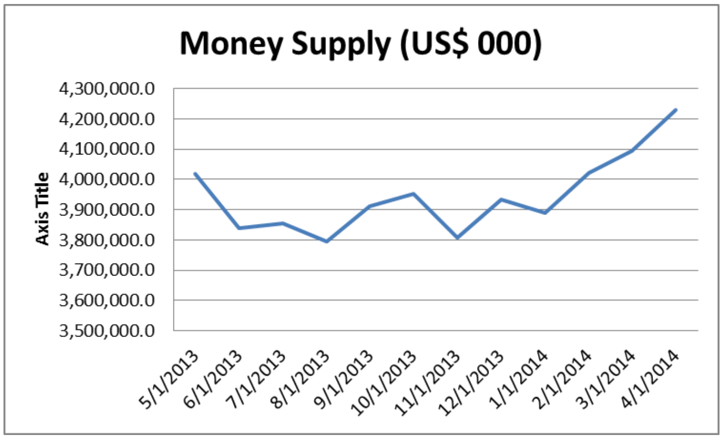


The graph shows that inflation was declining since May last year and entered the negative territory in February 2014. It reached it minimum point in May before it took an upward trend though remaining in negative territory.

Money Supply Developments

The rate of money supply growth was higher in April as compared to the previous month of March. Total broad money increased by US$136.5 million in April reflecting a 3.33 percent as compared to the prior month which had registered a 1.8 percent increase equivalent to US72.2 Million.

The major contributors to the growth in money supply were expansions of US$171.0 million in over 30-day deposits; US$107.2 million in under 30-day deposits; US$100.9 million in demand deposits; and US$92.7 million in savings deposits. Partially offsetting these increases was a decline of US$115.4 million in under 30-day deposits.

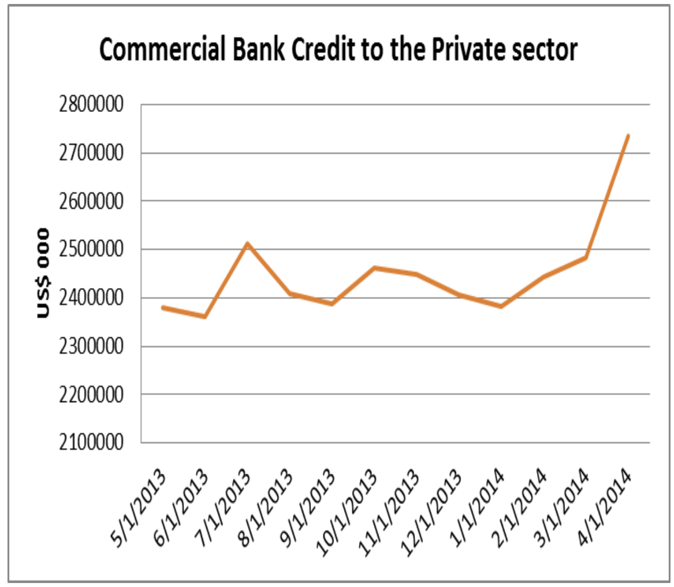


The above fig shows that money supply has been on an upward trend since the start of 2014. In January the total money supply was US$3 888 645 300. It has since risen to US$ 4 230 458 600 in April. Cumulatively total broad money supply increased by US$ 341 813 300 since the beginning of 2014.

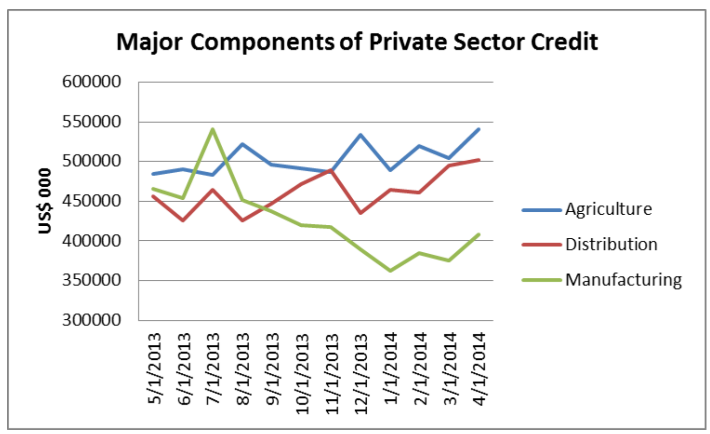
The Reserve Bank of Zimbabwe has attributed the greater increase in broad money supply to the tobacco sales. As at end of April 2014, cumulative tobacco sales amounted to over US$330 million, which represents significant inflows into the economy. With the tobacco selling almost coming to an end the momentum in the growth of money supply might start to decline also. It is important that the country continues to pursue other methods of increasing money supply especially measures meant to improve the competitiveness of our exports. The current trend where exports are less than imports should be reversed if we are to increase the amount of money supply in the country.

Credit Provision

The challenges currently being faced by the Banking sector has seen banks cutting down on the loans advances to the private sector. Weigh down by Non-performing Loans; banks have been carefully on the lending to the private sector as a risk aversion strategy. This saw the total amount of credit to the private sector increasing marginally from US$3 569.4 million in April 2013 to US$3 594.0 million in April 2014. Since the beginning of the 2014, credit to the private sector by the Commercial Banks has been on an upward trend.

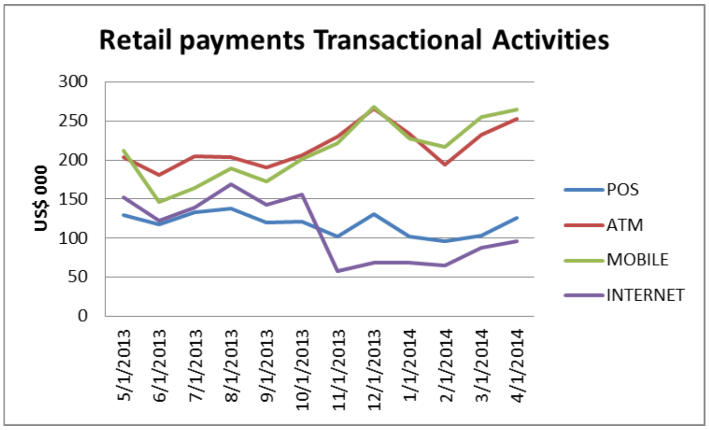


Whilst on a month-on-month basis, credit to the private sector, however, declined by 0.43% in April 2014, from US$3 610.3 million recorded in March 2014.



Commercial banks continue to support all sectors of the economy. The major beneficiaries of the credit from the Commercial banks are the Agriculture, Distribution and Manufacturing. Though credit to the Manufacturing sector was on the decline at the end of last year, the last two months has witnessed an increase in the amount going to this sector. Agriculture and Distribution continued to get increasing amounts of credit from the commercial banks.

Electronic payment Systems



The total value of transactions that were done through POS, ATM, Mobile and Internet profiles increased in total value between March and April 2014. Point of sale transactions increased by 21.9 percent to US$126.26 Million, Automated Teller machines transactions increased by 8.7 percent to US$253.16 Million, Mobile based transactions increased by 3.5 percent to US$ 264.38 Million and Internet based transactions increased by 9.5 percent to US$96.29. The increase in the cash alternative payment system is a good development as it reduces pressure on the demand for cash in an economy characterized by liquidity constraints. It is important that the stakeholders should be able to understand the importance of these alternatives.

Zimbabwe Capital Markets Developments

The ZSE industrial Index gained 1.15% in the month of May whilst the Minings Index went up 19.57% to help the entire market to a 1.35% recovery despite a much lower turnover volume.

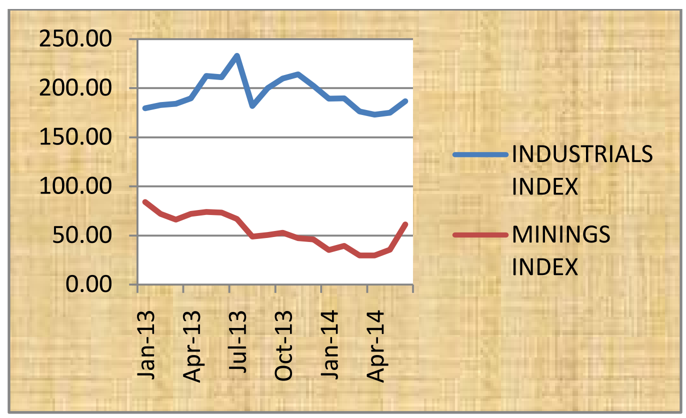
May turnover took a dip from USD51.35 million value traded in April to USD35.903 million turnover recorded during the May trading sessions.

This was mainly on the back of lower volumes of shares that exchanged hands in May -236 million shares-compared to 429 million shares that were traded in April.

The dip reflects continued tight domestic liquidity conditions, as foreign trades still constitute the lion's share of trading on the ZSE. Net sales by foreigners however did not help the domestic liquidity situation as foreigners sold USD24.12 million worth of shares against purchases of USD21.85 million with a net outflow of USD2.27 million resulting.

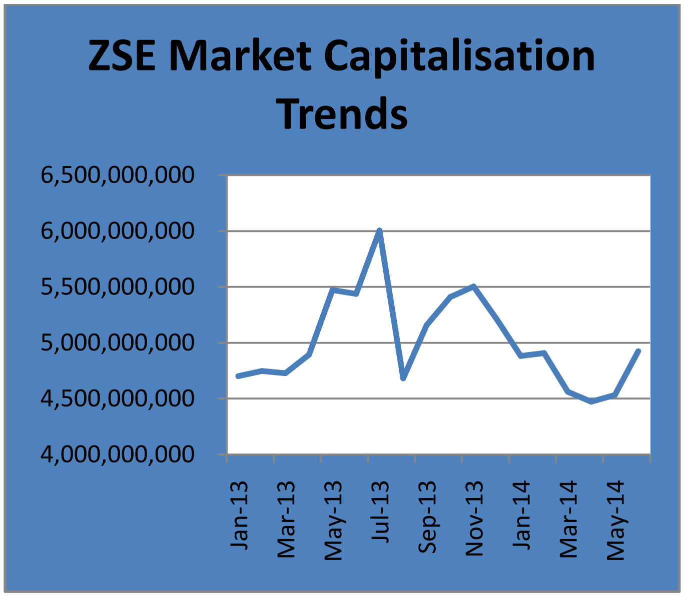
The 1.15% rise in the industrial index during May to brought the year to date return on equities to minus 13.47%. The total ZSE market capitalization also firmed 1.35% to USD4.534 billion from USD4.734 billion the previous month.

ZSE TRENDS



However, reflecting difficult trading conditions for the past 18 months, the ZSE market capitalization is actually USD973 million lower than in May 2013 when the value of the market was USD5.471 billion.

Company financial results released in the year to May continue to re affirm the general slowdown in the economy and the negative impact it has had on listed stocks. As such, it shall remain a difficult year for equity investors as the bearish trend on the stock market should persist.



Monthly Feature Article: Clive Mphambela

Banks Must Lead the Way in Addressing Financial Exclusion

It is generally true that most of us in the cities and towns, have access to the basic tools of financial planning in the form of services provided by banks and insurance companies where their offices are mainly located and whether we use them becomes a matter of choice.

However, most of our citizens, particularly those in the more remote parts of our country, remain financially excluded. Addressing the financial exclusion challenge has become the pre occupation of the banks, the regulators and Government at large.

The recent Finscope 2011 survey and the subsequent Finscope 2012 surveys conducted in Zimbabwe by the Finmark Trust under the auspices of the World Bank Group have been very enlightening. They reveal some saddening statistics about the state of financial inclusiveness in Zimbabwe. Some of the metrics unveiled by the survey were that as much as 43% of business owners (1,2 million) are financially excluded, i.e. they do not use any financial products or services (neither formal nor informal) to manage their business finances whilst only 50% of SME business owners (1,4 million) have access to or use of informal mechanisms to manage their business finances.

A mere 18% are formally serviced by both banking and other formal non-banking products services while only 14% ofSME business owners (382 000) are banked, i.e. use formal financial products and services offered by a commercial bank.

A large majority of SMEs do not use or have a bank account for business purposes and only 3% were found to use a bank account in the name of their business.

In this MSME economy, cash related transactions were found to be the most common with cash withdrawals and deposits account for 70% of all banking transactions while another very revealing number was that 99% of MSME owners pay their employees in cash.Surely we must face this challenge and the key role players in addressing this as identified in our previous wrings are Government, Financial Institutions, Regulators and the people themselves.

Fortunately, financial inclusion is fast emerging as a priority area for Zimbabwean policymakers and regulators as part of a broader agenda for financial sector development.

There is an increasing level of discourse, led by the banking industry in Zimbabwe for all stakeholders to work towards introducing comprehensive measures to improve access to and usage of formal but well tailored financial services, informed and this strategy is underpinned by a fast-growing body of experience and knowledge.

Luckily for us in Zimbabwe, whilst we have our own unique circumstance, we do not have to reinvent the wheel in most respects. We can learn and borrow from the experiences of more than 60 other countries have initiated financial inclusion reforms in recent years.

The growing priority placed on financial inclusion followed the commitments made by financial regulators from 35 developing countries to financial inclusion and to financial education under the Maya Declaration during the Alliance for Financial Inclusion's (AFI) 2011 Global Policy Forum held in Mexico.

Previously, the G20 leaders had also committed to improve access to financial services at the Pittsburgh Summit in November 2009, and a Financial Inclusion Experts Group (FIEG) was created to expand access to finance for household consumers and micro, small-, and medium-sized enterprises.

The FIEG developed the nine Principles for Innovative Financial Inclusion, which were endorsed during the Toronto Summit in June 2010. These nine principles, derived from the experiences and lessons learned from policymakers throughout the world, underpin the Financial Inclusion Action Plan endorsed at the Korea Summit in November 2010, which called for the creation of the Global Partnership for Financial Inclusion (GPFI) as the mechanism to execute the G20 commitment***.***

These principles for innovative financial inclusion derive from the experiences and lessons learned from policymakers throughout the world, especially leaders from developing countries.

1. **Leadership-**We must cultivate a broad-based government commitment to financial inclusion to help alleviate poverty.
    2. **Diversity-** We must implement policy approaches that promote competition and provide market-based incentives for delivery of sustainable financial access and usage of a broad range of affordable services (savings, credit, payments and transfers, insurance) as well as a diversity of service providers.
    3. **Innovation-**We must promote technological and institutional innovation as a means to expand financial system access and usage, including by addressing current infrastructure weaknesses.
4. **Protection-**We must encourage a comprehensive approach to consumer protection that recognises the roles of government, financial services providers and consumers.
5. **Empowerment-**We must develop and engender financial literacy and financial capability amongst the citizenry. We must start financial education at an early age and where possible, financial education and entrepreneurship must be made a part of the national education curriculum spanning primary, secondary and tertiary education sectors.
6. **Co-operation-**We should create an institutional environment with clear lines of accountability and co-ordination within government; and also encourage partnerships and direct consultation across government, business and all other stakeholders.
7. **Knowledge-**We should utilize modern research tools and the improved data provided to make evidence based policy, measure progress, and consider an incremental “test and learn” approach acceptable to both regulators and service providers. This allows for regulators to allow products into the market on a test basis and then craft regulations around the product as issues arise and emerge. Such an approach promotes innovation and speeds up the process of financial inclusion.
8. **Proportionality-**We should build a policy and regulatory framework that is proportionate with the risks and benefits involved in such innovative products and services and is based on an understanding of the gaps and barriers in existing regulation. In simpler terms let us not fit first world regulatory frameworks on a developing financial sector which may stifle growth.
9. **Regulatory Framework-**However, we should still consider that the adopted regulatory framework should still reflect international standards, being sensitive to national

circumstances and balance the need to support a local development agenda whilst maintaining a sufficiently healthy but competitive landscape.

Therefore an appropriate, flexible, risk-based Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime outlining; the conditions for the use of agents as a customer interface; a clear regulatory regime for electronically stored value; and market-based incentives to achieve the long-term goal of broad interoperability and interconnection is paramount.

The above principles are a reflection of the conditions conducive to spurring innovation for financial inclusion while protecting financial stability and consumers. They are not a rigid set of requirements but are designed to help guide policymakers in the decision making process. They are flexible enough so they can be adapted to different country contexts.

Driving financial inclusiveness is clearly on the global agenda and we in Zimbabwe cannot be left behind. The road map for financial inclusion at the global level has followed a rapid evolution which in Zimbabwe we must embrace and turn into a revolution if we are to drive domestic savings growth, and create a sustainable financial services sector.

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