

Monthly Economic Bulletin



July
2014

Editor's Note

Is Zimbabwe's economy in a confirmed deflation spiral? That is an important question that is on everyone's mind at the moment and sadly, there doesn't seem to be an easy answer to that one, except of course that all the signs of deflation are present!!

Developments on the inflation front, with the June CPI remaining in negative territory, now for the fifth month running seem to confirm what perhaps some would not want to hear. The June 2014 year on year rate of inflation at -0.08% is negative despite it registering gains on the May CPI which was at minus 0,19% year-on-year. The liquidity situation in the economy was slightly better following the 2.25% increase in broad money supply between April and May. This followed a modest 3.3% increase in broad money on a month on month basis during the month of April. On balance however, the economy is in slow down mode and the situation in the economy does not seem to be improving as each day passes.

Aside from the stretched fiscal position, recent reports by government arms responsible for revenue collection seem to suggest that inflows into the fiscus were also subdued in the first half of the year, with revenue targets being missed. The authorities have come out guns blazing, to encourage a widening of the tax net to include informal sector players.

Such ideas are noble, and indeed any economic player involved in the economy must in one way or the other shoulder the burden of supporting the fiscus, but caution must be exercised not to drive the informal sector players further underground, or worse still to drive them completely out of business.

Some of the key highlights of the IMF Article IV consultative meeting held earlier on in the month put forward the need for government to tighten the management of their expenditure away from recurrent employment costs to begin a process freeing up resources towards capital expenditure.

These recommendations whilst logical at the economic level, are obviated by the political challenge they possess. The civil service is already severely underpaid and most departments understaffed, so it stands to reason that this shift will be difficult to achieve.

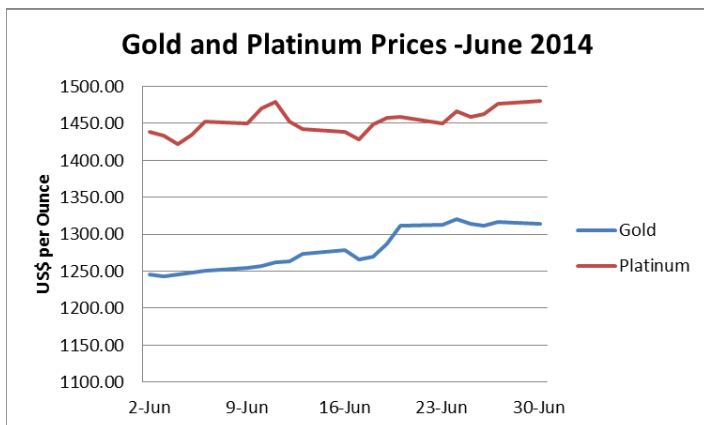
However, should the efforts towards re-engagement be successful and the country begins to get some credit extended by lenders, they would naturally want to see some kind of budget surplus as this would enhance the country's ability to service its debt.

World Economic Developments

International commodity Prices

Gold and Platinum prices were on upward trend during the month of June.

Gold prices increased from US\$1245.75 per ounce at the beginning of June to close the month at US\$1314 per ounce. Despite the increase recorded in June, the average price was lower than that which was recorded in May. The highest monthly average for the year of US\$1336.71 was recorded in March.



Platinum prices also recorded an upward movement in prices. Platinum started the month at US\$1438.50 per ounce and rose to close the month at US\$1480.50 per ounce. The average price for the month of US\$1452.60 per ounce was the highest for the year. This high average might be a result of the industrial actions that have characterized the South African platinum mines.

Macroeconomic Developments

Inflation Developments

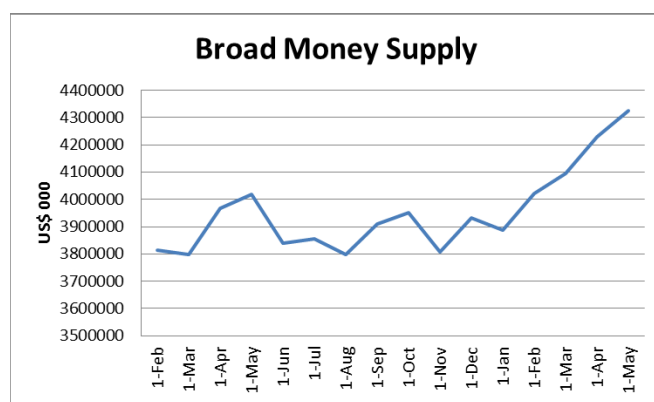
Zimbabwean inflation rate continues to hover in the negative territory for the fifth consecutive month since February. The year on year inflation rate for the month of June 2014 as measured by the all items Consumer Price Index (CPI) stood at -0.08 percent, gaining 0.11 percentage points on the May 2014 rate of -0.19 percent. This means that prices as measured by the all items CPI decreased by an average of 0.08 percentage points between June 2013 and June 2014.

Despite the inflation rate continuing in the negative range, there is debate still raging on what is causing the negative inflation rate or alternatively what is causing the deflation currently being experienced in the country. Some of the explanations include reduced domestic demand, liquidity crunch affecting the country, Balance of payment problems and general economic decline. There is need for the country to put in measures that will boost consumer demand and also allow corporates to operate at full capacity.

Monetary Developments

Broad money supply has been on an upward trend since January 2014. On a month on month basis broad money supply increased by US\$ 95.25 million reflecting a 2.25 percentage increase between April and May.

The growth in the broad money supply is mostly attributable to the tobacco selling season. It has become seasonal in the country that tobacco selling season is characterized by increased money supply as the tobacco buyers bring into the country new money.



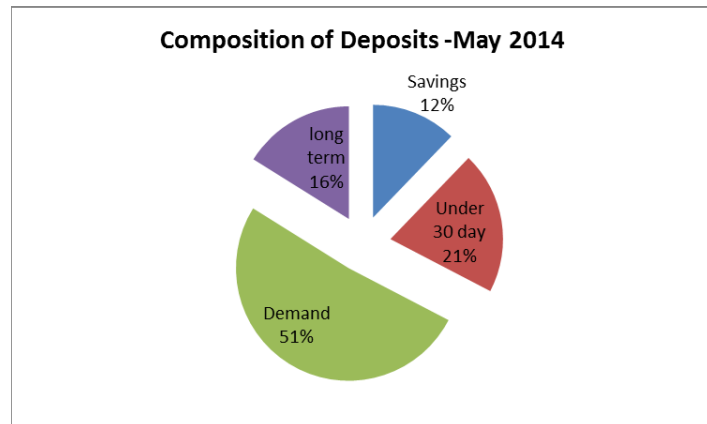
The growth of money supply was experienced across all deposit classes with savings deposits recording the highest annual growth of 12.5.

Despite the growth in all classes of deposits, the architecture of the deposits remains short term in nature. Long term deposits accounted for only 16 percent of the total deposits as at the end of May. This characterization goes against the current country's requirements where industry is starved of long term financing for capital purposes.

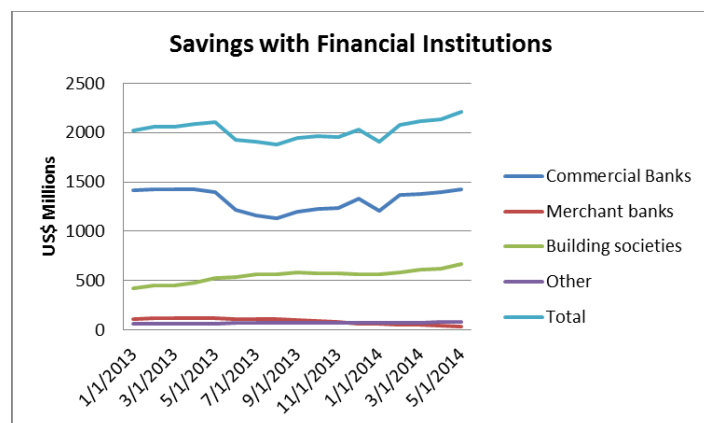
by Building societies w and other financial institutions.

Credit to the Private sector

On a month-on-month basis, credit to the private sector also fell by 0.1% in May 2014, from US\$3 594.93 million recorded in April 2014. The effects of non-performing loans have seen banks cutting down on the amount there have been advancing as loans to the private sector. As risk mitigation measures banks are putting in place measures of seriously screening loan applicant so as to reduce bad assets in their book. The situation is further compounded by the attendant liquidity challenges facing the economy.



The graph below shows that savings with financial institutions have been on an upward trend since January 2014. Savings with financial institutions comprises all deposits other than demand deposits. Other financial institutions include the People's own savings bank (POSB).



The total amount of savings as at the end of May 2014 totaled US\$2.2 billion with the majority of savings resident with Commercial Banks followed

Sectoral Analysis of Commercial Banks Loans and Advances

Sector	Amount Outstanding (US\$ 0)
Agriculture	546733.9
Construction	41594.2
Communication	21547.9
Distribution	488389.7
Financial and Investments	10073.8
Financial Organisations	23049.1
Manufacturing	396846
Mining	184730.9
Services	452373.8
Transport	51891.8
Individuals	512864.5
Conglomerates	17718.8
Total	2747814.4

A review of the total loans and advances by the Commercial Banks shows that the Commercial Banks total loans amounted to US\$ 2.748 Billion. Of the total loans by the Commercial Banks, Agriculture had the greatest share at 19.9 percent of the total loans followed by; Individuals (18.66 percent), Distribution (17.77 percent), Services (16.46 percent) and manufacturing (14.44 percent).

The Sectoral analysis of the Commercial Bank loans and advances show that the banking sector is supporting almost all sectors of the economy despite the challenges currently bedeviling the economy and the effects of the NPLs on the banks' balance sheet.

Capital Markets

The Industrial Index continued to recover some of the lost returns that had been wiped down since the beginning of the year. The ZSE gained 6.67% in the month, reducing its year to date losses to -7.70% as at 30 June 2014. The June rally took the market rally to a two month streak and indications from market players are that the rally could be sustained for a further month leading to a break even market return position by end of July.

However, the slow recovery of the market since the beginning of the rally could be an indication that the market could be ready for some profit-taking.

However, the financial results that are coming out continue to highlight the difficult trading conditions in the economy. Earnings are either flat, or lower than similar periods and profit margins are squeezed. Volumes in most part are lower, indicating slowing demand.

The benchmark Industrials Index gained 6.68% in July to close at 186.57 whilst a massive 173% recovery on the Minings index saw it jump from 35.44 in June to 61.32 in July.

Monthly Feature Article: Clive Mphambela

The Power of Self Organisation

.....SMEs Must Self Mobilise for Growth!

The Micro, Small and Medium Enterprise (MSME) Sector has been identified as a key pillar of economic recovery for Zimbabwe and it is not surprising that a lot of healthy and inquisitive questions are being asked by stakeholders about this sector.

One of the key economic questions is how the estimated US\$7,4 billion in financial resources that is estimated to be circulating in the informal sector can be harnessed for economic development.

Other key economic questions evolve around how the informal sector's contribution to the overall economy can be better, understood, measured and accounted for so that the MSME sector's in the economy role can be fully appreciated. Whilst intuitively it is acknowledged that the MSME sector is contributing immensely to the overall economic lifeblood of the economy, providing livelihood through self-employment opportunities for many, with the larger SMEs creating employment for others beyond the immediate owners.

MSMEs also play an important role in providing those goods and services that would be unsuitable for large formal businesses such as hair salons and car wash parlors. In our case in Zimbabwe the major distribution networks for the largest companies in the telecoms and beverages sector consist largely of informal traders, highlighting the importance of the sector.

The debate therefore is no longer about whether or not MSMEs are important, but how their role in the economy can be enhanced.

In pursuit of some of the above answers one key thing that always sticks out is the fragmented and fractured structure of the MSME sector.

This attribute contributes to the fuzziness of the lens through which policy makers and other stakeholders view the sector. The apparent disorderliness that characterizes MSME operations at the business level and the sector at large normally evokes negative emotions about the sector from the various stakeholders, be it the general public, government, local authorities, bankers and many others. The negative views solicited negate and cloud the important economic role the MSME sector plays in the economy.

The Power of Self Organisation

There is no better way of stating a well known truism, which says “There is strength in numbers”.

Part of the solution to the negative perception problem for informal sector players, lies in what we can call, “the power of self-organization”.

Many formal sector players, particularly banks, would like to encourage MSMEs to be organized in accordance with their specific subsector or product clusters, either by location or simply through association and membership to an organized voluntary self regulating body. Such bodies should typically be financed through regular members contributions or some other mechanism that creates and instills a sense of ownership, belonging and accountability in the members.

Admittedly there are some such bodies but more should be done in the MSME sector. This strategy would help MSMEs on a number of fronts.

Speaking with one voice

This is important when engaging other stakeholders. For example negotiating with local

authorities for operating spaces and facilities becomes easier. Even lobbying for favorable changes in by-laws , or licensing conditions may become easier if MSMEs are speaking with a unified purposeful voice.

Self Regulation

The ability to self regulate members according to a constitution of membership always results in stakeholders taking MSME enterprises seriously. Membership bodies that take exception to errant behaviour by members, encourage a sound business and moral code in their members, building a successful common basis for the success of individual enterprises and the collective whole.

Pooling and raising own resources

MSMSE clusters can pool and mobilize financial and entrepreneurial resources making them attractive partners for a variety of formal business service providers. A clear example in our midst is the local informal funeral insurance entities commonly known as burial societies. Some housing co-operatives also fall into this category. Members successfully mobilize resources to augments formal sources of finance.

Flow back of benefits

Naturally MSMEs would not want to join an organization from which benefits do not flow. They would have no incentive to make their contribution of the necessary levies that keep the associations going. There must be a very visible flow of tangible and goodwill benefits of belonging to such bodies. This could be in the form of access to finance, opportunities for growth, capacity building training and development, facilities to operate from and so on.

Development of market linkages

Well organized SME sector organizations not only improve accountability and order within the membership, but help it easier for stakeholders to identify opportunities for market linkages amongst players in the MSMSE sector itself and also between the MSMSE sector and the formal sectors.

For example, a well organized furniture making association at Glen View would be more likely to be able to clinch a large order to supply lounge suites to a large local furniture retailer than single members negotiating individually.

In short, if the MSME sector self organizes into strategic value clusters, it also becomes possible for formal businesses to quickly and easily identify potential areas of value chain linkages with other key stakeholders.

Banks will for example be able to structure more suitable and sustainable value chain financing tools necessary for the growth of the MSMSE sector.

The unified approach to problem solving and the pursuit of opportunities is strengthened through

the increased bargaining power. In addition, members of well structured MSME entities will benefit from behavioral transformations as all members exhibit much higher commitment to the fulfillment of contracts. Members also benefit from the ability of the entities to mobilize resources internally and negotiate favorable terms of trade and finance with external partners.

In the long run MSMEs belonging to identifiable associations will be able to attract investors and other soft capital to the sector as the sector becomes organized and accountable.

The country will thus benefit from the increased contribution of the informal sector to direct and indirect taxes will enhance overall economic performance.

Overall it becomes easier for economists and policy makers to measure and accurately determine the contribution of the informal sector to the economy.

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