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EXECUTIVE SUMMARY

Global economic activity has broadly strengthened and is expected to improve further in 2014 through to 2015. According to the World Economic Outlook (WEO), global growth is projected to strengthen from 3.00% in 2013 to 3.60% in 2014, before reaching 3.90% in 2015, with much of the impetus to growth coming from advanced economies. However, risks to growth include lower-than-expected inflation in advanced economies, subdued activity in many emerging market economies and the resurfacing geopolitical instability stemming from developments in Ukraine, and the Middle East & North Africa (MENA) region.

Global inflation is generally projected to remain subdued in 2014–15 with continued sizable negative output gaps in advanced economies, weaker domestic demand in several emerging market economies, and falling commodity prices. In advanced economies, inflation is projected to average 1.5% in 2014-15, reflecting lower inflationary pressures in the US and within the Euro Area. In emerging market and developing economies, inflation is expected to decline from about 6.0% in 2012 to about 5.2% by 2015, on the back of softer world commodity prices in U.S. dollar terms.

Commodity prices have remained subdued in 2014 compared to 2013, with Gold price averaging US$1,292.79 per ounce in the first quarter of 2014 compared to US$1,630.28 in the first quarter of 2013. Platinum prices on the other hand averaged US$1,420.43 per ounce in January 2014, but declined to US$1,336.71 in March 2014. In the outlook however, the price of platinum is expected to strengthen, reflecting the negative impacts of the South African platinum workers' strike on production. Similarly, Brent crude oil prices of US$107.91 per barrel in 2014 were much lower compared to the first quarter of 2013, of US$112.65 per barrel during the first quarter of 2013.

More so, wheat and maize prices were low at the beginning of the first quarter of 2014, nevertheless, they improved significantly through the quarter. The price of wheat which averaged US$307.52 per tonne, was affected by owing to considerable harvests recorded in major wheat exporting countries like Canada, Australia, European Union, Kazakhstan, Russia and Ukraine. Maize prices, however firmed up during the first quarter of 20144 to an average of US$219.38 per tonnes on account of increased demand and low supplies.

Whilst global growth is projected to improve, with many Sub Saharan African (SSA) countries such as Angola, Ethiopia, the Democratic Republic of Congo, Botswana, Mozambique, Tanzania and Congo, posting remarkable growth of above 7.0% in 2014 through to 2015, the Zimbabwean economy is weakening. In the first quarter of 2014, the ZEPARU Leading Indicator Index show that economic activity was declining except for the month of February were it marginally recovered. The decline is a result of falling aggregate demand due to tight liquidity and rising unemployment as some companies are folding out and downsizing. The decline in economic activity in the first quarter of 2014 is reflected in the decline in the performances of the key indicators used in the compilation of the Index, including falling stock market activity, declining imports of intermediate goods, and high lending rates. Year-on-Year inflation has been declining from 0.41% for January 2014 to -0.49% in February 2014, before shedding 0.42 percentage points to -0.91% in March 2014. This, disincentives producers and also impacts negatively on borrowing as it increases the real debt burdens, to the detriment of the country's growth prospects.

Similarly, government revenues have been declining, with cumulative revenue outturn to March 2014 of US$805.48 million being 3.88% lower than the US$837.97 million realised over the first quarter 2013. The overall revenue underperformance can be attributed to the prevailing macroeconomic challenges, including company closures; liquidity constraints and falling aggregate demand as evidenced by the lower-than-expected performance in the major consumptive taxes of VAT (-20.60%), Customs duty (-20.21%) and Excise duty (-1.84%), whilst Corporate tax (-6.46%), also under performed reflecting company closures.

The low Government revenues impose a serious constraint on government expenditures, where were contained at US$766.89 million, giving a cash surplus of US$38.60 million. The expenditure mix remained consumptive with recurrent expenditures accounted for 95.19%, (US$ 730.01 million), whilst capital expenditures accounted for 3.06% (US$ 23.48 million), with the remainder 1.75% being long term loans by the government. Government wage bill remain a major downside risk towards fiscal sustainability, with employment costs and pensions, accounting for 75.51% of recurrent expenditures and 71.88% of total expenditures at US$ 551.25 million. This unsustainable situation is likely to further worsen if the approved salary adjustments for the public service are to be effected in April 2014. Hence, further crowding out non-wage expenditures to the detriment of the country's public sector investment program and growth prospects

The banking sector has also not been spared. Despite total banking deposits growing to US$4.09 billion in March 2014 from US$3.80 billion in March 2013, the growth rate of deposits has slowed down as reflected by the decline in money supply growth from 10.5% to 7.8% over the period March 2013 to March 2014. Credit to the private sector has also declined slightly from US$3.62 billion in March 2013 to US$3.61billion in March 2014. While there has a decline in credit to the private sector, credit to the Government and Parastatals has increased significantly over the period, pointing towards the Government's increasing reliance on domestic borrowing to complement the low revenues.

Equally, activity at the Zimbabwe Stock Exchange (ZSE) has been slowing down. Both the industrial and mining indices closed the first quarter of 2014 at 176.32 and 29.51, respectively, compared to 183.88 and 66.21, respectively, in the first quarter of 2013. This was as a result of depressed liquidity which has left many local investors with no appetite to invest on the local bourse. Furthermore, market capitalisation declined by 3.51 percent from US$4.73 billion in the first quarter of 2013 compared to US$4.56 billion in the first quarter of 2014, reflecting fall in the prices of shares traded, on account of low demand due to persisting liquidity crisis.

Notwithstanding the above negative developments, tobacco sales volumes during the first quarter amounted to 39 million kg valued at US$121.3 million, compared to 31.7 million kg, worth US$117.2 million, sold over the same period in 2013. Noticeable increase in tobacco deliveries was recorded in the contract farming sales volumes as they rose by 38.5% from 19.5 million kg to 27 million kg. Similarly, the value of contract tobacco rose from US$72.7 million in 2013 to US$88.7 million in 2014. Despite the positive tobacco selling season, the agriculture sector remains challenged, with noticeable declines in both wheat and milk production, on the back of a series of constraints including: high costs of production, power shortages, lack of proper planning and low dairy herd among other challenges.

With regards to the mining sector, total mineral earnings (excluding diamonds) decreased by 12.5% for the first quarter of 2014to US$435.41 million, compared to the same period in 2013,wherein US$497.63 million was realised. The decrease in revenue can be attributed to the poor performance of mineral prices on the international market. However, mining, royalties grew by 83.53% from US$43.1 million collected in the first quarter of 2013 to US$79.1 million collected in the first quarter of 2014. The increase in royalties can be attributed to the removal of sanctions on Zimbabwe’s diamond mining companies which enabled the sale of diamonds at Antwerp.

The first quarter in 2014 saw a very small improvement in the country’s trade deficit. The trade deficit during the first quarter of 2014 fell marginally by about 0.5% compared to the same period in 2013 to about US$822.2 million. Whilst this is a positive development, statistics however reveal that the improvement in the trade deficit was mostly a result of the fall in imports rather than an improvement in exports, hence the need for strategies to encourage export growth.

Such strategies could be anchored by the broad adjustment and reform program under the Staff Monitored Program (SMP), which the government is pursuing. The SMP was extended by six months in January 2014, following the 9 month program expired in December 2013. The successful implementation of the programme could help the country achieve fiscal sustainability, while protecting infrastructure investment and priority social spending, strength public financial management; increase transparency in mining; reduce financial sector vulnerabilities; and rebuild fiscal buffers and international reserves, as well as pave the way for Zimbabwe to re-engage with the international community, for financial support and debt resolution.

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ABBREVIATIONS

Agritex	Agriculture and Extension Services
CLI	Composite Leading Indicators
FOMC	Federal Open Market Committee
MENA	Middle East and North Africa
MoFED	Ministries of Finance and Economic Development
NIEEF	National Indigenisation and Economic Empowerment Fund
RBZ	Reserve Bank of Zimbabwe
SSA	Sub-Saharan Africa
TIMB	Tobacco Marketing Board
VMI	Volume of Manufacturing Index
WEO	World Economic Outlook
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZETSS	Zimbabwe Electronic Transfer Settlement System
ZIA	Zimbabwe Investment Authority
ZIMSTAT	Zimbabwe Statistical Agency
ZSE	Zimbabwe Stock Exchange

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1.0 GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

1.1 World Economic Outlook

Global economic activity has broadly strengthened and is expected to improve further in 2014 through to 2015. According to the World Economic Outlook (WEO)[1], global growth is projected to strengthen from 3.00% in 2013 to 3.60% in 2014, before reaching 3.90% in 2015 (Table 1). Much of the impetus to economic activity under the review period will come from advanced economies. However, risks to growth include lower-than-expected inflation in advanced economies, and the resurfacing geopolitical instability stemming from developments in Ukraine, and the Middle East & North Africa (MENA) region. Further, activity in many emerging market economies has remained subdued by less favourable external financial environment. This notwithstanding, emerging market economies continue to contribute more than two-thirds of global growth.

Table 1: Overview of the World Economic Outlook Projections (Percentages)

	2012	2013	2014	2015
World Output	**3.2**	**3.0**	**3.6**	**3.9**
Advanced Economies	**1.4**	**1.3**	**2.2**	**2.3**
United States	*2.8*	*1.9*	*2.8*	*3.0*
Euro Area	*–0.7*	*–0.5*	*1.2*	*1.5*
Emerging Markets & Developing Economies	**5.0**	**4.7**	**4.9**	**5.3**
Middle East & North Africa	**4.2**	**2.2**	**3.2**	**4.5**
Sub Saharan Africa	**4.9**	**4.9**	**5.4**	**5.5**

Source: WEO Update, April 2014

In advanced economies, growth is expected to increase to 2.20% in 2014, and 2.30% in 2015, with a major impulse to growth coming from the United States (US), whose economy grew at 3.30% in the second half of 2013, due to strong export growth and temporary increases in inventory demand. Despite recent indicators suggesting some slowing in early 2014, much of which is related to unusually bad weather, the US economy is expected to grow by an average of 2.80% and 3.00% in 2014 and 2015, respectively (Table 1). This will largely be anchored on accommodative monetary conditions, a recovering real estate sector, higher household wealth and easier bank lending conditions (WEO April 2014).

Growth is projected to be positive but varied in the Euro Area. It is expected to be stronger in Germany, United Kingdom, Italy, Spain and France, but weaker in countries with high debt (both private and public) and financial fragmentation, which will both weigh on domestic demand. In the core Euro Area, a strong reduction in the pace of fiscal tightening from about 1% of GDP in

[1]April 2014, World Economic Outlook, (WEO) of the International Monetary Fund (IMF),

2013 to 0.25% of GDP is expected to help lift growth, whilst outside the core, contributions from net exports and the stabilization of domestic demand, have helped the turnaround. Overall, economic growth in the Euro Area is projected to reach only 1.2% in 2014 and 1.5% in 2015.

In Emerging Market and Developing Economies, growth is projected to pick up gradually from 4.7% in 2013 to about 5% in 2014 and 5.3% in 2015. Growth will be helped by stronger external demand from advanced economies, but tighter financial conditions will dampen domestic demand growth. In China, grow this projected to remain at about 7.5% in 2014 as the authorities seek to rein in credit and advance reforms while ensuring a gradual transition to a more balanced and sustainable growth path. For India, real GDP growth is projected to strengthen to 5.4% in 2014 and 6.4% in 2015, assuming that government efforts to revive investment growth succeed and export growth strengthens after the recent Rupee depreciation.

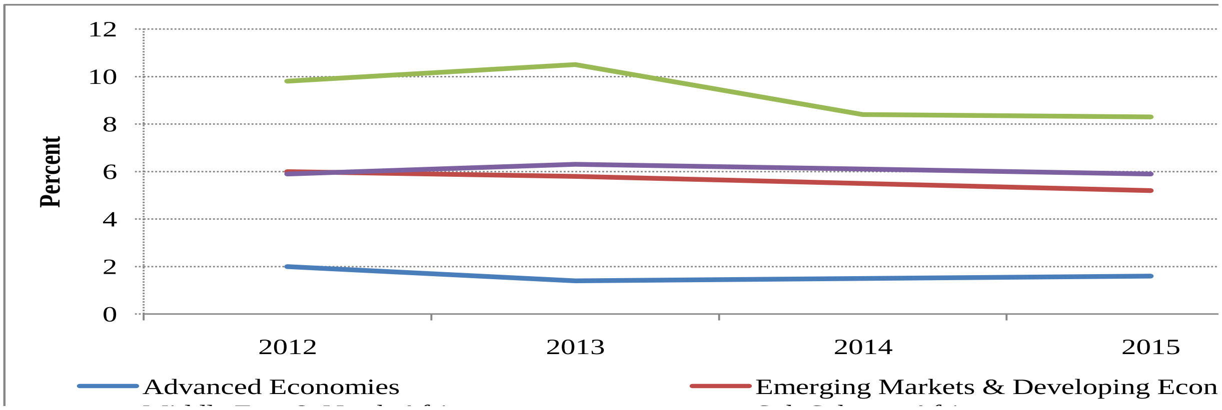
In the Middle East and North Africa, regional growth is projected to rise moderately at 3.2% in 2014, up from the 2.4% recorded in 2013. Most of the recovery is due to the oil-exporting economies, where high public spending contributes to buoyant non-oil activity. Many oil-importing economies continue to struggle with difficult socio-political and security conditions, (e.g. Egypt, Syria and Sudan), which weigh on confidence and economic activity.

In sub-Saharan Africa (SSA), growth is expected to increase from 4.9% in 2013 to 5.4% in 2014 and 5.5% in 2015, underpinned by improved agricultural production and investment in natural resources and infrastructure. Growth in countries such as Angola, Ethiopia, the Democratic Republic of Congo, Botswana, Mozambique, Tanzania and Congo are expected to remain strong, at above 7.0% in 2014 through to 2015, mainly on account of strong polices, massive investments in infrastructure and mining and maturing investments.

1.2 Global Inflation Developments

Global inflation is generally projected to remain subdued in 2014–15 with continued sizable negative output gaps in advanced economies, weaker domestic demand in several emerging market economies, and falling commodity prices. Average inflation within the respective regional groupings is projected to remain within single digit threshold (Figure 1). Declines in the prices of commodities, especially fuels and food, have been a common force behind recent decreases in inflation across the globe. For instance, oil prices fell by 0.9% in 2013, whilst non-fuel (average based on world commodity export weights) fell by 10.0% and 1.2% in 2012 and 2013, respectively.

Figure 1: Consumer Prices Developments and Projections, 2012- 2015



Source: WEO Update, April 2014

In advanced economies, inflation is projected to average 1.5% in 2014-15 (Figure 1), reflecting lower inflationary pressures in the US and within the Euro Area (were inflation is projected to remain below 1.0% in 2014). In emerging market and developing economies, inflation is expected to decline from about 6.0% in 2012 to about 5.2% by 2015, on the back of softer world commodity prices in U.S. dollar terms.

The MENA region is projected to record the highest inflation rates averaging 8.3% in 2014-15. This, mainly on the backdrop of the combined effects of: weak confidence, low competitiveness, and in many cases, large public deficits. Conversely, inflation is projected to continue to abate in the SSA region from 6.3% in 2013 to 5.9% in 2015 (Figure 1). However, significant headwinds to inflation exist, mainly in the form of possible policy missteps and domestic political uncertainties ahead of elections, for those regional countries faced with general elections in 2014. These include Algeria, South Africa, Malawi, Guinea-Bissau, Egypt, Tunisia, Namibia and Mozambique, among others.

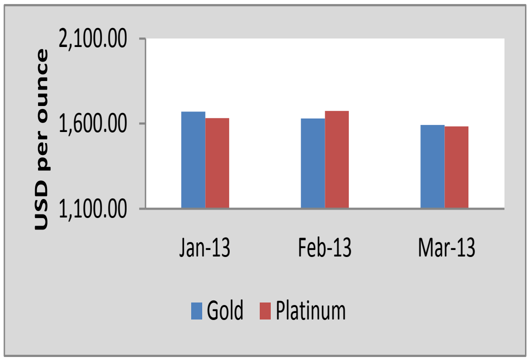
1.3 International Commodity Price Developments

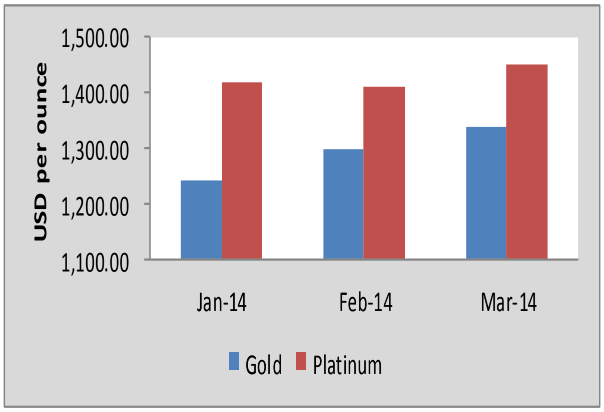
1.3.1 Precious Metals

Precious metals prices commenced the first quarter of 2014 on a positive path, though prices were much weaker compared to 2013. Gold price averaged at US$1,292.79 per ounce in the first quarter of 2014 compared to US$ 1,630.28 in the first quarter of 2013. The average gold price for January was US$1,241.82 per ounce, which increased to US$1,299.83 in February and further to US$1,336.71 per ounce in March (Figure 2).

The improvement in the gold price in the first quarter of 2014 was supported by poor performance of the equities markets which often serve as alternative investments to gold. The depreciation of the US dollar against leading currencies such as the Euro, Australian dollar, Japanese Yen and Canadian dollar also helped pull up the gold price in the quarter. The performance of the gold price in the first quarter of 2014 was however undermined by speculations on whether or not interest rates were to going to increase followingthe decision by the Federal Open Market Committee (FOMC) to further taper its asset purchase programme, owing to signs of economic growth in the United States (US). The US economy recorded growth ingross domestic product (GDP) of 3.3% in the second half of 2013, whilst the unemployment rate declined from 7.0% in December 2013 to 6.7% in January 2014. The depreciation of the Indian Rupee against the United States dollar also supressed the gold price in India as the country is among the leading buyers of gold. The depreciation of the Indian Rupee against the US dollar makes gold imports more expensive, resulting in reduced demand and downward pressure on price.

Figure 2: Monthly Average Prices of Gold and Platinum First Quarter 2013 and 2014





Source: Bloomberg and Reuters

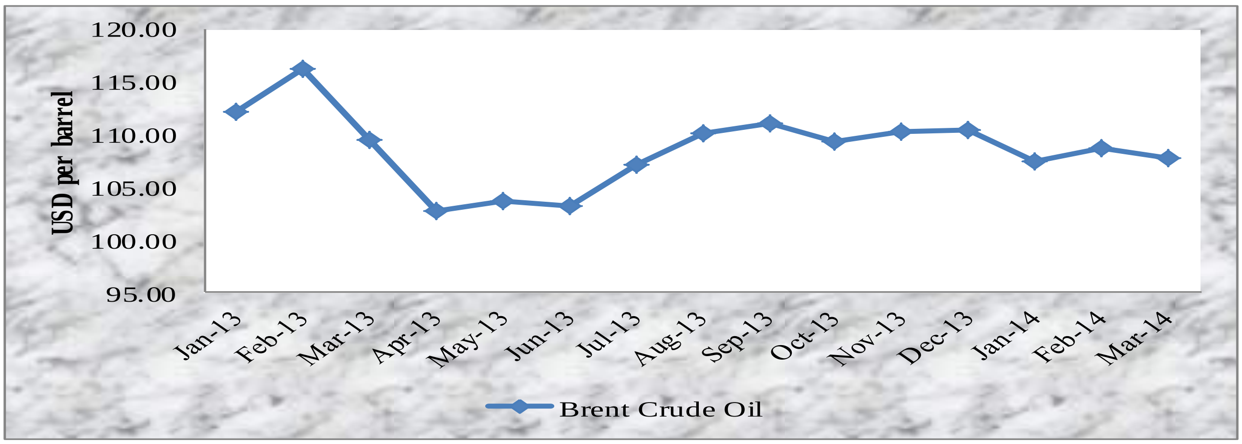
The platinum price on the other hand averaged US$1,420.43 per ounce in January 2014, but declined to US$1,409.51 in February before rising to US$1,336.71 in March. The price of platinum was affected by the slowdown in the Chinese economy as reflected by the estimated growth rate of 7.5% in 2014, which is lower than that of preceding years, i.e., 7.7% in 2013 and 7.8% in 2012. The Chinese Purchasing Managers Index (PMI) declined from 50.5% in December 2013 to 49.5% in January 2014 signalling poor performance of the manufacturing sector. The on-going Association of Mineworkers and Construction Union (AMCU) strikes in South Africa did not seem to have much effect in strengthening the platinum price, as companies were still able to meet demand from their buffer stocks.

In the outlook however the price of platinum is expected to strengthen as the AMCU strike effects on platinum supply begin to take effect.

1.3.2 Brent Crude Oil

Brent crude oil price in 2014 were much lower compared to the first quarter of 2013. The Brent crude oil price averaged US$112.65 per barrel in the first quarter of 2013, compared to US$107.91 per barrel during the first quarter of 2014, (Figure 3). In the first quarter of 2014, the Brent Crude oil price averaged US$107.44 per barrel in January before rising to US$108.70 in February 2014 and declining in March to US$107.79 (Figure 3). The strengthening of Brent crude oil price in February was supported by geopolitical concerns in Libya which disrupted supplies. Furthermore, the increased heating oil demand as a result of the harsh winter weather in the Northern Hemisphere and increased buying from China pulled up the Brent crude oil price.

Figure 3: Brent Crude Oil Prices January 2013 – March 2014 (Monthly Averages)



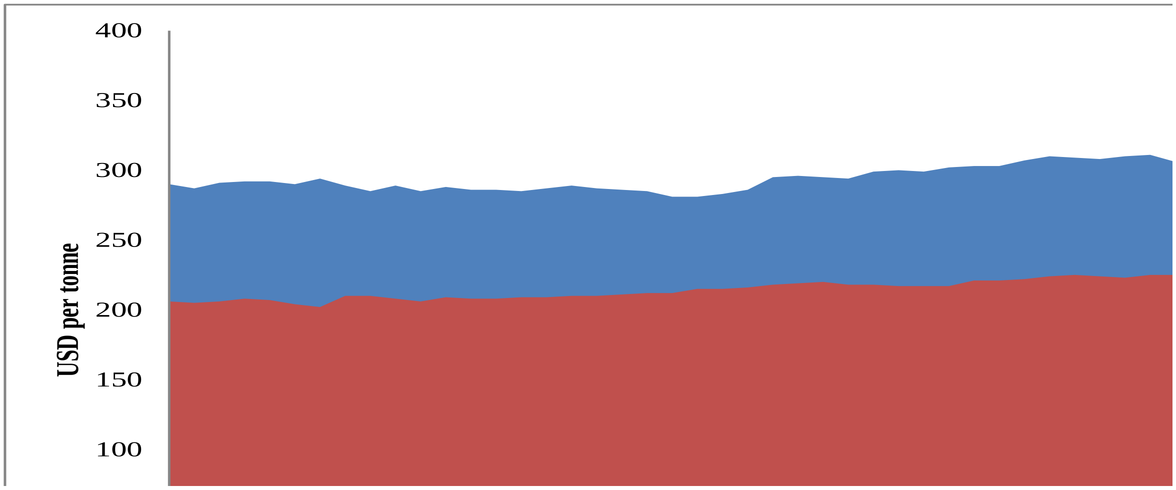
Source: Bloomberg and Reuters

The decline in Brent Crude Oil price in March 2014 was as a result of the reduction in refinery oil demand, following the commencement of maintenance works at European and Russian oil refineries. The decline in refinery demand led to ample supplies on the market, resulting in dampening on the Brent crude oil price.

1.3.3 Maize and Wheat

Wheat prices were low at the beginning of the first quarter of 2014, nevertheless, they improved significantly as the quarter progressed. The price of wheat declined to US$283.00 per tonne as at 31 January 2014 from US$290.00 per tonne at the beginning of January (Figure 3), owing to considerable harvests recorded in major wheat exporting countries like Canada, Australia, European Union, Kazakhstan, Russia and Ukraine. The improvement in the wheat price in February and March was supported by the harsh winter weather which affected harvest and the quality of the crop in the USA. Moreover, the geopolitical tensions in the Black Sea region also added pressure on the supply of wheat as both Ukraine and Russia are significant exporters of wheat.

Figure 4: Maize and Wheat Export Prices January - March 2014



Source: International Grain Council

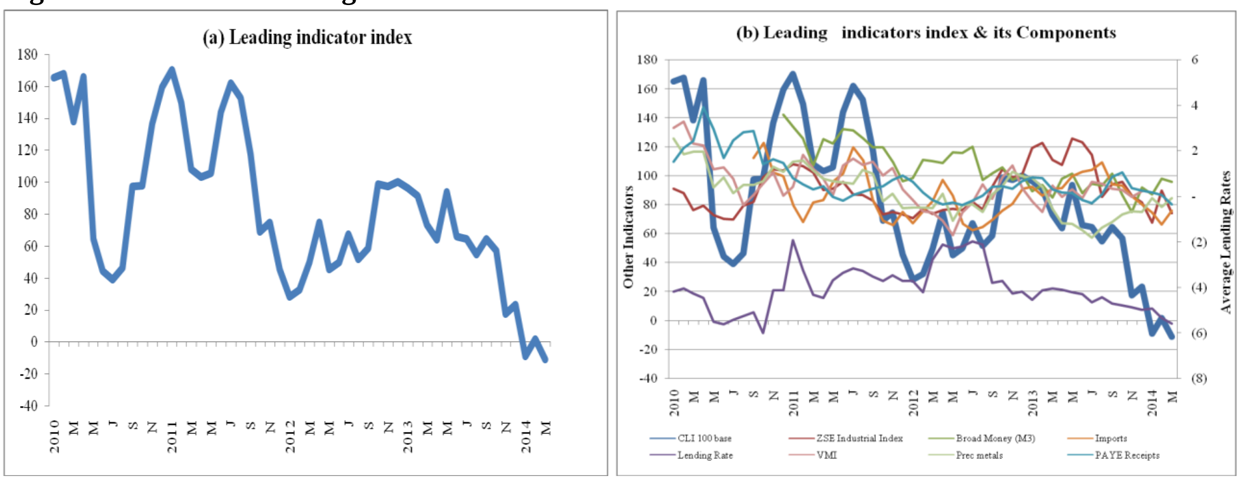
The price of maize was lower at the beginning of the quarter of 2014, and increased steadily through the quarter. The maize price benefitted greatly from increased demand and low supplies. Brazilian maize supplies were lower because of the country's shift to soybean production, whilst the US production was affected by the harsh winter weather conditions. The geopolitical tensions in the Ukraine had a modest positive effect on the maize price, despite the fact that the country is the third largest producer of the commodity. As a result the price of maize increased from US$205.00 at the start of January to US$225.00 on February 28 and further up to US$234.00 at the end of March (Figure 4).

2.0 MACROECONOMIC DEVELOPMENTS

2.1 ZEPARU Leading Indicators Index

In the first quarter of 2014, the ZEPARU leading indicators show that economic activity was declining except for the month of February were it marginally recovered (Figure 5a). The decline is a result of falling aggregate demand due to tight liquidity and rising unemployment as some companies are folding out and downsizing.

Figure 5: ZEPARU Leading Indicators Index



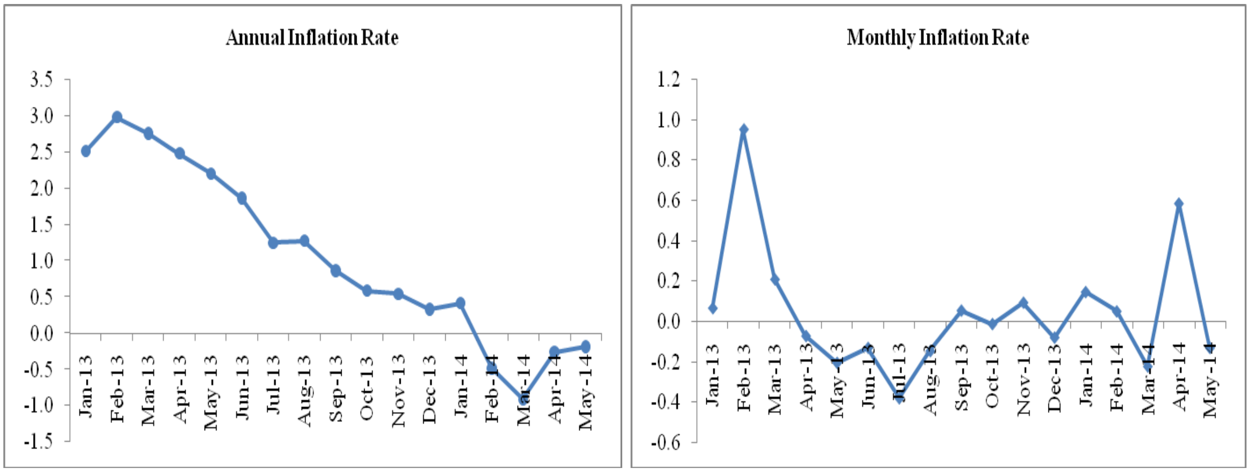
Source: ZEPARU 2014

The decline in economic activity in the first quarter of 2014 is reflected in the decline in stock market activity, falling imports of intermediate goods, declining prices of precious metals and high lending rates (Figure 5b).

2.2 Inflation Developments

The annual inflation rate for January 2014 stood at 0.41% and declined to -0.49% in February 2014 to enter into deflation. In March 2014, year-on-year (YoY) inflation continued to decline, shedding 0.42 percentage points from the February rate, to stand at -0.91%. Food and Non Alcoholic beverages inflation stood at -3.71%, whilst Non-food inflation stood at 0.51% in March 2014. The decline in inflation was underpinned by the decline in the price of the following: communication (-13.68%), Food& Non Alcoholic Beverages (-3.71%), Furniture & Equipment (-1.82%), Miscellaneous Goods & Services (-1.82%) and Recreation & Culture (-1.21%). On the other hand, price increases were noted in the following categories: Restaurants & Hotels (2.47%), Housing, Water, Electricity, Gas & Other Fuels (2.21%) and Alcoholic Beverages &Tobacco (1.67%). The continued decline in inflation is as a result of the depressed US dollar/Rand exchange and depressed consumer spending with firms like Delta Corporation, experiencing decline in sales of beverage volume citing low consumer spending in the first quarter of 2014.

Figure 6: Inflation Developments, First Quarter 2014



Source: Zimbabwe National Statistical Agency (2014)

On a month-on-month (MoM) basis, inflation for January 2014 stood at 0.14%, whilst in February it stood at 0.05% before shedding 0.27 percentage points to -0.22% in March 2014. Food & Non Alcoholic Beverages inflation stood at -0.14 % in March 2014, from 0.18% in February 2014, whilst MoM Non-food inflation stood at -0.26%, from the February 2014 figure of -0.01%. Thus, the decline in monthly inflation was underpinned by the decline in the prices of the following: Housing, Water, Electricity, Gas &Other Fuels (-0.82%), Miscellaneous Goods & Services (-0.30%) Food & Non Alcoholic Beverages (-0.14%) and Furniture & Equipment (-0.12%). On the other hand, marginal price increases were noted in the following categories: Health (0.02%), Communication (0.01%) and Restaurant & Hotels (0.01%).

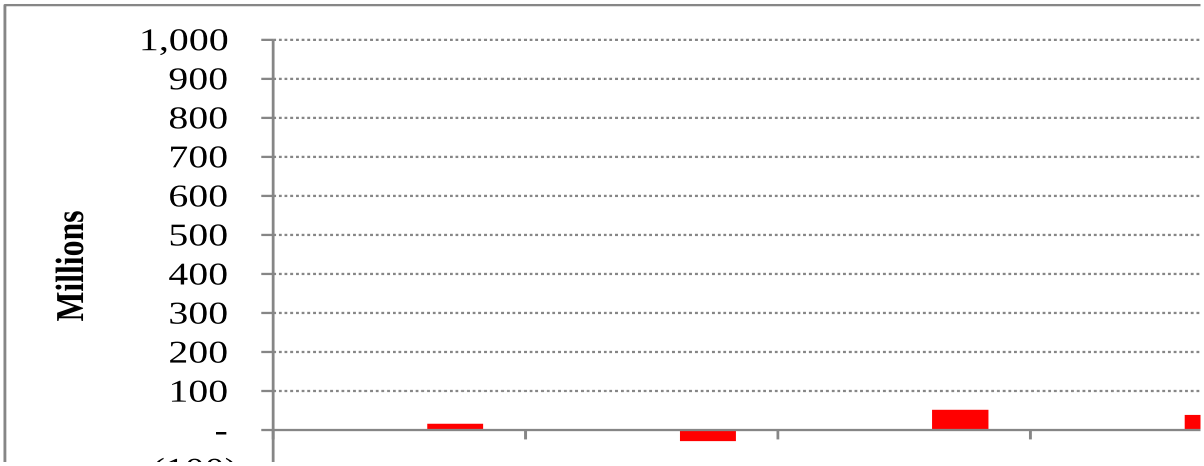
2.3 Fiscal Developments

2.3.1 Revenues Outturn

The first quarter of 2014 has been a difficult one for revenue collections, with monthly revenue outturn missing targets. Despite the government collecting its highest monthly revenue outturn in March of US$ 317.79 million, it was still below the target of US$ 321.41 million. Cumulative revenue outturn for the quarter amounted to US$ 805.48 million (Figure 7), and was 7.8% lower than the cumulative target of US$ 873.32 million. Furthermore, the cumulative revenue outturn to March 2014 was 3.88% lower than the US$ 837.97 million realised over the first quarter 2013. The overall revenue underperformance can be attributed to the prevailing macroeconomic challenges, including company closures; liquidity constraints and general decline in the price level (see section on inflation developments).

The major tax heads that underperformed included: VAT (-20.60%), Customs duty (-20.21%) and Corporate tax (-6.46%) and Excise duty (-1.84%). On the positive side, growth in revenues was realized in PAYE (10.86%), on the back of follow-ups and remuneration audits undertaken by the Zimbabwe Revenue Authority (Zimra). Further, Zimra intensified efforts to enforce compliance with tax regulations, which have somewhat, helped counter the negative effects of the prevailing macroeconomic environment on revenue collections.

Figure 7: Fiscal Developments from Jan to March 2014 Vs First Quarter 2013 (US$ Millions)



Source: MoFED

2.3.2 Expenditure Outturn

Monthly government expenditure has been trending upwards from US$ 235.90 million in January 2014 to US$ 266.16 million in March 2014 (Figure 7). Cumulative expenditures for the first quarter 2014 amounted to US$ 766.89 million, 12.14% lower than the same period in 2013, (Figure 7). During the first quarter 2014, recurrent expenditures accounted for 95.19%, (US$ 730.01 million), whilst capital expenditures accounted for 3.06% (US$ 23.48 million), with the remainder 1.75% being long term loans by the government. Government wage bill remain a major downside risk towards fiscal sustainability, with employment costs and pensions, accounting for 75.51% of recurrent expenditures and 71.88% of total expenditures at US$ 551.25 million. This unsustainable situation is likely to further worsen if the approved salary adjustments for the public service are to be effected in April 2014. Hence, further crowding out non-wage expenditures to the detriment of the country’s public sector investment program and growth prospects

On the overall, with cumulative expenditures of US$ 766.89 million against total revenues of US$ 805.48 million, the Government incurred a cash surplus of US$ 38.60 million (Figure 7).

2.4 Banking and Other Financial Sector Developments

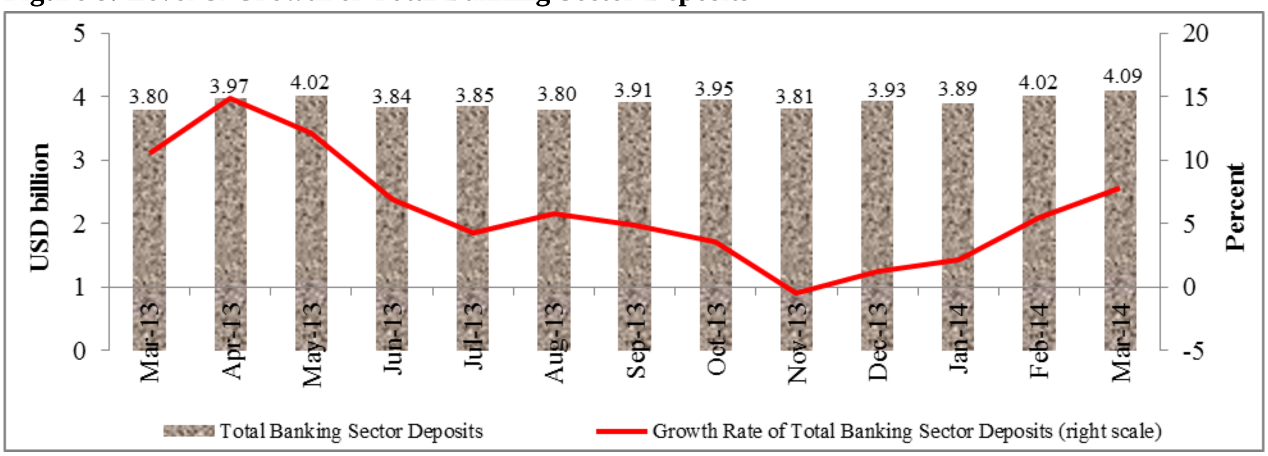
2.4.1 Overview of the Banking Sector

Total banking sector deposits grew to US$4.09 billion in March 2014 from US$3.80 billion in March 2013. However, the growth rate of deposits has slowed down as reflected by the decline in money supply growth from 10.5% to 7.8% over the period March 2013 to March 2014. Credit to the private sector has declined slightly from US$3.62 billion in March 2013 to US$3.61billion in March 2014, despite the increase in total domestic credit. While there has a decline in credit to the private sector, credit to the Government and Parastatals has increased significantly over the period, pointing towards the Government's increasing reliance on domestic borrowing to complement the low revenues.

2.4.2 Total Banking Sector Deposits

As at end-March 2014, total banking sector deposits, net of inter-bank deposits, stood at US$4.09 billion, against US$3.80 billion during the same period in 2013 (Figure 8). Although total banking sector deposits have increased over the period March 2013 to March 2014, their growth rate has declined from 10.5% to 7.8%, reflecting sluggish economic growth, coupled by low depositors' confidence in the banking system.

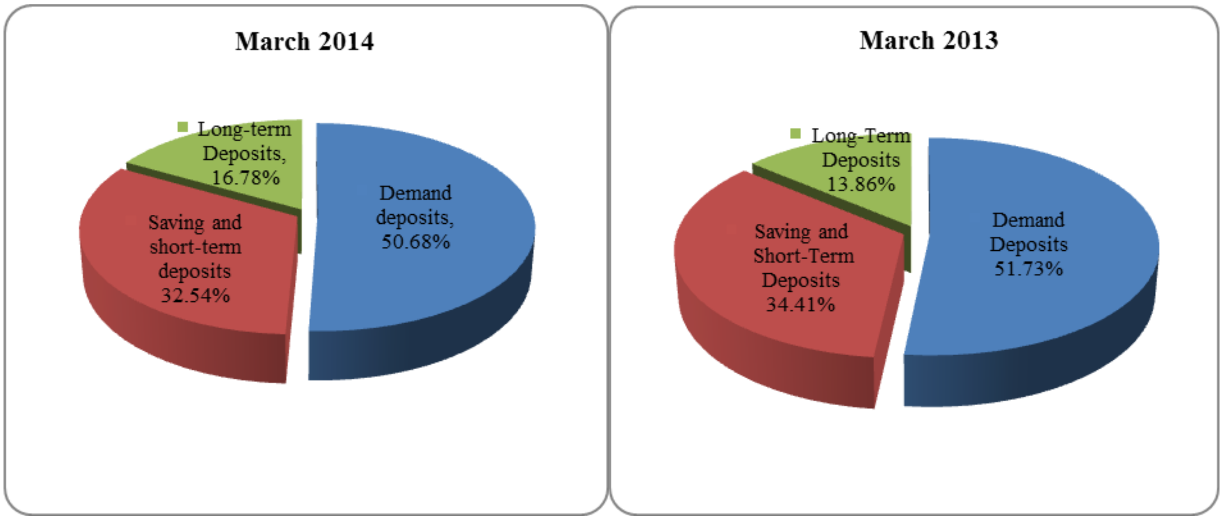
Figure 8: Level & Growth of Total Banking Sector Deposits



Source: RBZ Monthly Economic Review, April 2014

As at end-March 2014, the composition of deposits was as follows: demand deposits (50.68%), savings & short-term deposits (32.54%) and long-term deposits (16.78%), (Figure 9). A comparison of March 2013 and March 2014 shows that long-term deposits not only increased in absolute terms but also increased by 2.92% as a share of total deposits. The increase can partly be explained by the fact that in 2013 long-term deposits were lower due to depositors' uncertainty about government policies including the tenure of the multicurrency regime after the general elections in July 2013. In 2014, some of the uncertainties have cleared up, contributing to the growth of long-term deposits.

Figure 9: Composition of Total Banking Sector Deposits, March 2013 & 2014



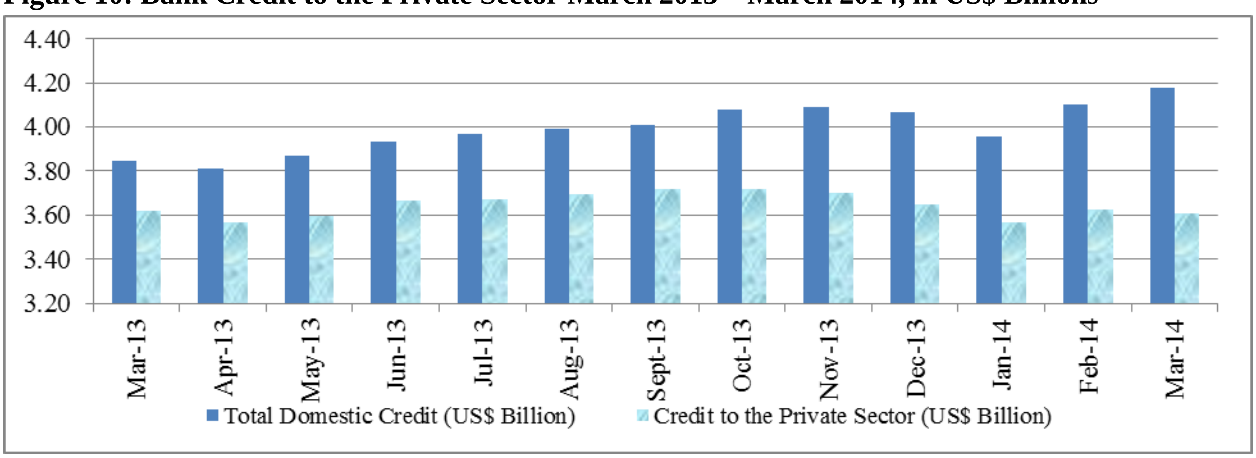
Source: RBZ Monthly Economic Review, April 2014

Despite improvements in the long term deposits, the banking sector remains characterised by short-term and demand deposits (83.22%), which affects the sector's capacity to offer long-term loans.

2.4.3 Bank Credit to the Private Sector

Credit to the private sector declined to US$3.61 billion in March 2014 from US$3.62 billion in March 2013, (Figure 10), despite the increase in total domestic credit from US$3.85 billion to US$4.18 billion over the same period.

Figure 10: Bank Credit to the Private Sector March 2013 – March 2014, in US$ Billions



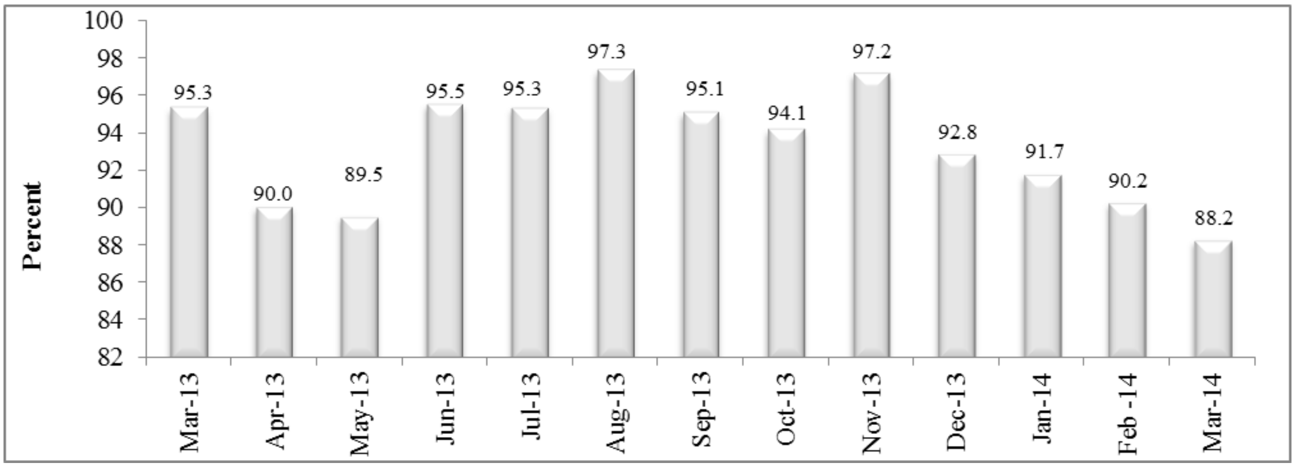
Source: RBZ Monthly Economic Review, April 2014

There has been increased lending towards Government from US$170.64 million in March 2013 to US$490.23 million in March 2014. The increase in lending might have been necessitated by government borrowings to meet public service salary increments. Similarly, lending towards public enterprises has increased over the same period from US$54.09 million to US$79.53.

2.4.4 Bank Loan-to-Deposit Ratio (%)

The loan-to-deposit ratio as at March 2014 stood at 88.2%, a decline from to 95.3% in March 2013 (Figure 11). The loan-to-deposit ratio has been on the decline since December 2013 owing to a more cautious approach towards lending due to high non-performing loans which peaked at 15.9% in December 2013.

Figure 11: Loan-to-Deposit Ratio



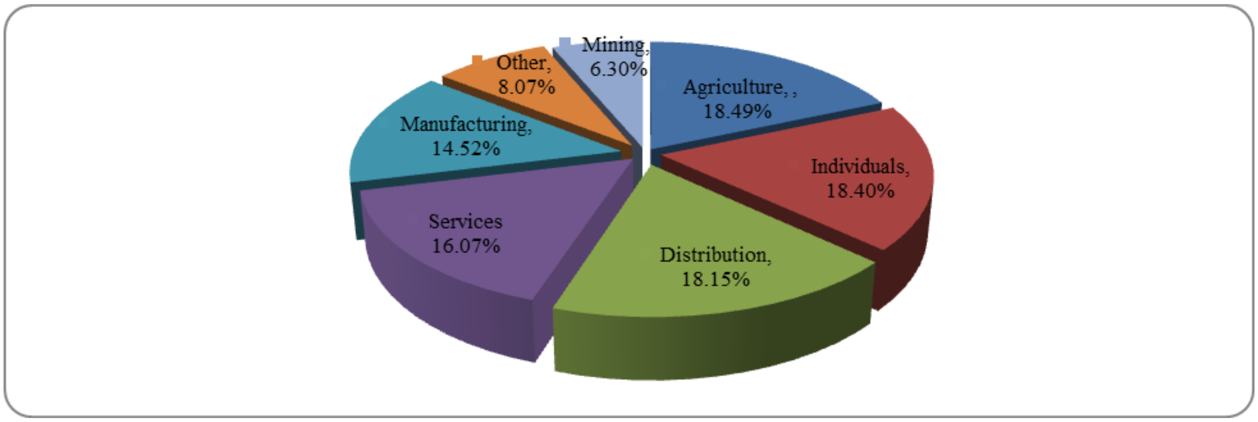
Source: RBZ Monthly Economic Review. April 2014

Furthermore, the decline in the loan to deposit ratio, can also be attributed to the prevailing deflationary environment, which increases the real debt burden, weighing down on demand for borrowing.

2.4.5 Sectoral Distribution of Loans and Advances

As at March 2014, loans and advances to the private sector were distributed as follows: Agriculture (18.49%); Individuals (18.40%); Distribution (18.15%); Services (16.07%); Manufacturing (14.52%); Other Sectors (8.07%) and Mining (6.3%), (Figure 12).

Figure 12: Sectoral Distribution of Commercial Bank Loans & Advances, March 2014



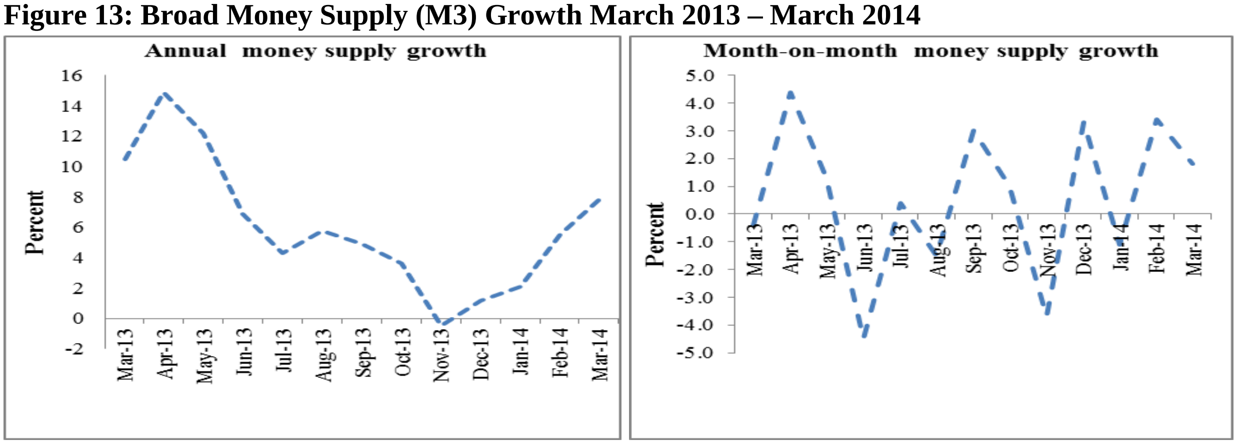
Source: RBZ Monthly Economic Review

A relatively larger share of loans and advances continue to go towards individuals, reflecting banks preference towards individuals relative to other productive sectors. This is partly explained by the low risk associated with salary based lending and relatively higher interest rates charged on individuals compared to corporates. However, most of the loans and advances extended to individuals are spent on consumptive purposes. For instance, of the 18.40% loans and advances extended to individuals, 12.50% was spent of consumer durables.

2.4.6 Money Supply Developments

Annual growth in broad money supply (M3), defined as total banking sector deposits (net of inter-bank deposits), stood at 7.8% in March 2014 against 10.5% in March 2013 (Figure 13). In 2014 average annual M3 growth recorded a decline form 14.84% in the first quarter of 2013 to 5.13% in the first quarter of 2014. However, in the first quarter of 2014 annual M3 growth has been increasing due to the inflow from tobacco sales. On a MoM basis, M3 growth has been very volatile.

Figure 13: Broad Money Supply (M3) Growth March 2013 – March 2014



Source: RBZ Monthly Economic Review, April 2014

2.4.7 Interest Rate Developments

Weighted average lending rates offered by commercial banks in the first quarter of 2014 declined compared to the first quarter of 2013 (Table 2). In the first quarter of 2014 mean weighted average lending rates by commercial banks for individuals and corporates were 14.16% and 9.24%, respectively, compared to 14.91% and 10.51% in the first quarter of 2013. A continuous decline in corporate commercial lending rates is desirable as it makes bank loans affordable and accessible to corporates that are constrained from borrowing by high lending rates. This would enable more investment and production, provided loanable funds remain available at reasonably lower rates from the banks.

Table 2: Interest Rate Levels (Percent per Annum), Quarter 1 2013 and Quarter 1 2014

End period	Commercial banks lending rates			Merchant banks lending rates			3-Month deposit rate	Savings deposit rate
	Nominal Rate	Weighted average		Nominal rate	Weighted average			
		Individuals	Corporates		Individuals	Corporates		
Jan-13	10.00-35.01	15.58	10.81	13.00-25.00	17.96	14.42	4-20.00	0.15-8.00
Feb-13	10.35-35.00	14.83	10.53	13.00-25.00	17.93	14.36	4-20.00	0.15-8.00
Mar-13	6.00-35.00	14.32	10.19	14.00-25.00	17.80	14.35	4-20.00	0.15-8.00
Q1: 2013		**14.91**	**10.51**		**17.90**	**14.38**		
Jan-14	6.00-35.00	14.09	9.30	15.00-23.00	18.88	17.74	3-20.00	0.15-8.00
Feb-14	6.00-35.00	14.08	9.32	15.00-23.00	18.88	17.73	3-20.00	0.15-8.00
Mar-14	6.00-35.00	14.24	9.27	15.00-23.00	18.88	17.73	3-20.00	0.15-8.00
Q1:2014		**14.16**	**9.24**		**18.88**	**17.73**		

Source: RBZ Monthly Economic Review, April 2014

However, merchant bank mean average lending rate increased to 18.88% and 17.73% for individuals and corporates, respectively, compared to 2013 lending rates of 17.90% and 14.38%. This can be attributed to the monopolistic nature of merchant banking, wherein Tetrad Investment Bank was the only active bank, as Capital Bank Corporation, formerly Renaissance Merchant Bank, was reeling under serious stress.

2.4.8 Other Banking Sector Developments

Transaction values processed through the Zimbabwe Electronic Transfer Settlement System (ZETSS) fell in the first quarter of 2014 to US$3,126.9 billion from the US$3,290 billion recorded over the same period in 2013, (Table 3). The decline may be explained in part by the slow-down in economic activity. There, however, has been an increase in the value of transactions using, cheques, cards and mobile & internet over the same period (Table 3). The increase in these transaction values indicate that the respective transacting methods are gaining popularity among the public partly because of their convenience and accessibility.

Table 3: ZETSS, Cheques, Card, Mobile and Internet Transaction Activity ((US$ Million)

Month	ZETSS	Cheque Values	Card Values	Mobile & Internet
Jan-2013	3,563.8	5.2	254.4	205.2
Feb-2013	2,968.0	5.5	260.5	199.3

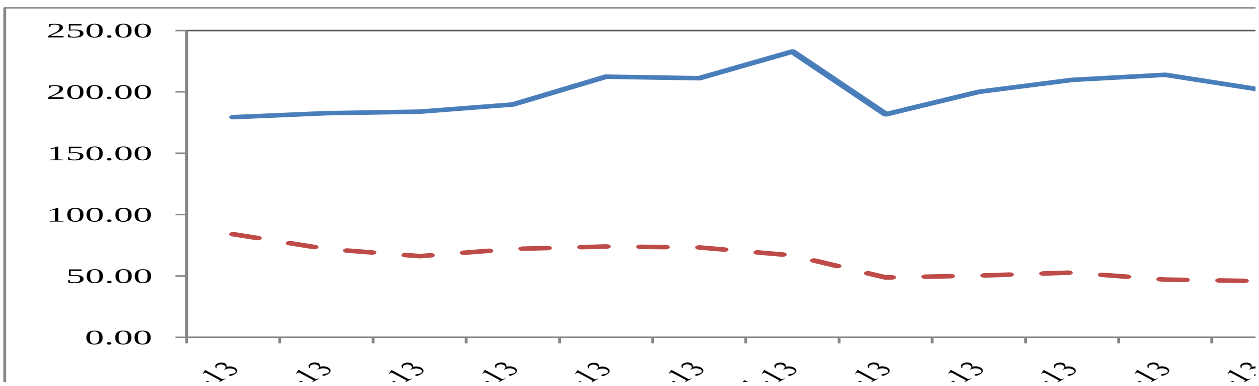
Mar-13	3,340.0	15.2	312.4	220.6
Q1:2013	**3,290.6**	**8.6**	**275.8**	**208.4**
Jan-14	3093.0	5.2	335.4	296.6
Feb-14	2954.9	10.7	290.2	132.7
Mar-14	3332.8	10.4	336.5	343.3
Q1:2014	**3126.9**	**8.8**	**320.7**	**257.5**

Source: RBZ Monthly Economic Review, March 2014

2.5 Stock Market Developments

In the first quarter of 2014, the industrial index opened trading at 190.29 on 2 January 2014 losing 0.84 points to close the quarter trading at 176.32 on 31 March 2014, whilst the mining index opened the quarter trading at 35.04, gaining 4.2 points to close the quarter at 29.51. Market capitalisation which stood at US$4.88 billion in January 2014 lost 6.56 percentage points to US$4.56 billion in March 2014, (Figure 14).

Figure 14: ZSE Industrial and Mining Indices from January 2013 to March 2014



Source: Zimbabwe Stock Exchange

On a YoY comparison both the industrial and mining indices closed the first quarter of 2014 at 176.32 and 29.51, respectively, compared to 183.88 and 66.21, respectively, in the first quarter of 2013. This was as a result of depressed liquidity which has left many local investors with no appetite to invest on the local bourse. There was, however, an increase in stock market activities in the first quarter of 2014 compared to the first quarter in 2013, with Turnover volume increasing by 2.58%. Thus despite the increase in volume, the value of the shares sold depreciated as the turnover value declined by 1.43% in the same period. There was an increase in stock market participation by foreign investors as the value and volume of shares bought by foreigners increased by 4.97% and 26.42%, respectively. On the other hand, the value and volume of shares sold by foreigners also increased by 10.37% and 16.34%, respectively, (Table 4).

Table 4: Summary Statistics for the Zimbabwe Stock Exchange for First Quarter 2013 and 2014

	Q1 2013	Q1 2014	Percentage Change
Turnover Value (USD)	120,384,301	118,668,534	(1.43)
Turnover Volume	560,631,006	687,208,341	22.58
Value of Shares bought by Foreigners (USD)	75,621,538	79,378,307	4.97
Value of Shares sold by Foreigners (USD)	42,841,656	47,282,524	10.37
Volume of Shares bought by Foreigners	270,122,115	341,497,359	26.42
Volume of Shares sold by Foreigners	190,221,053	221,312,003	16.34
Market Capitalisation (USD)	4,726,336,602	4,560,294,057	(3.51)

Source: Zimbabwe Stock Exchange

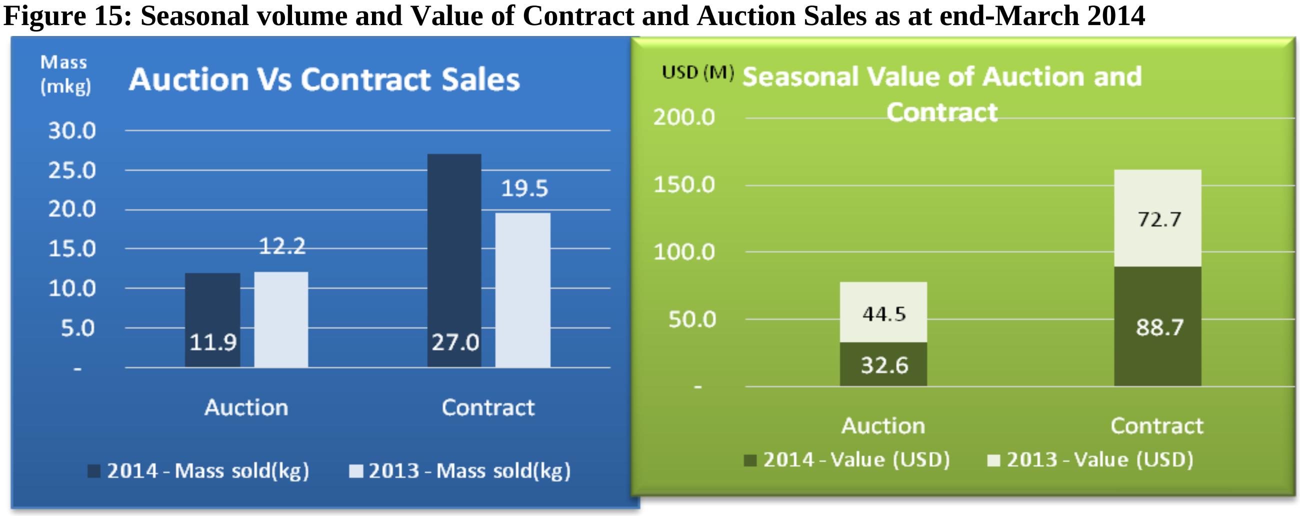
However despite these positive developments market capitalisation declined by 3.51 percent from US$4.73 billion in the first quarter of 2013 compared to US$4.56 billion in the first quarter of 2014.The decline in market capitalisation was due to the decline in the price of shares traded on the stock market as a result of the continued liquidity crisis on the local economy that have resulted in most investors pulling out of trading activities on the local bourse.

2.6 Agriculture Sector Developments

2.6.1 Tobacco Marketing Season

Tobacco marketing began in the first week of March 2014. By end-March 214, total sales volume had reached 39 million kg valued at US$121.3 million, compared to 31.7 million kg, worth US$117.2 million, sold over the same period in 2013. Although there was very insignificant change in sales in the auction market between the first quarters of 2013 and 2014, noticeable increase in tobacco deliveries was recorded in the contract farming sales volumes as they rose by 38.5% from 19.5 million kg to 27 million kg (Figure 15). Similarly, the value of contract tobacco rose from US$72.7 million in 2013 to US$88.7 million in 2014.

Figure 15: Seasonal volume and Value of Contract and Auction Sales as at end-March 2014



Source: TIMB

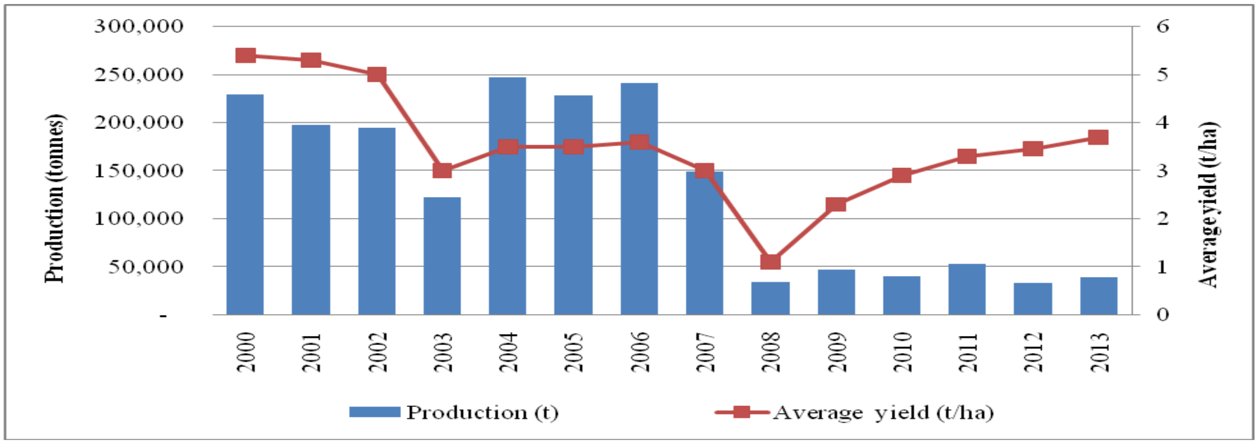
However, tobacco deliveries under auction decreased to 11.9 million kg as at end-March 2014 from 12.2 million kg over the same period in 2013, with total value also falling from US$44.5 million in 2014, to US$32.6 million, for the period under review.

Overall, 69% of the total sales were made from contract farming, indicating that with adequate funding, in terms of inputs, (that are procured timeously and in right quality and quantities), as well as technical support, farmers can produce more.

2.6.2 2013 Wheat Production

Wheat production in Zimbabwe has significantly declined over the years from a peak of 247,048 tonnes in 2004 to only 39,242 in 2013, mainly on account of erratic power supply, fuel shortages and lack of working capital to procure adequate inputs.

Figure 16: Wheat Production and Yield between 2000 and 2013 in Tones



Source: 2013 National Wheat report

The timing of planting is very critical if farmers have to maximise on productivity (Table 5). Those farmers that planted their crop in the month of May recorded the highest production level as compared to those that did so late.

Table 5: Wheat Production by Period of Planting

Time of planting	Area (Ha)	Yield (T/Ha)	Production (T)
April	42	3.68	155
May	5 414	4.30	23 280
1-15 June	2 774	3.60	9 986
After 15 June	2 376	2.45	5 821

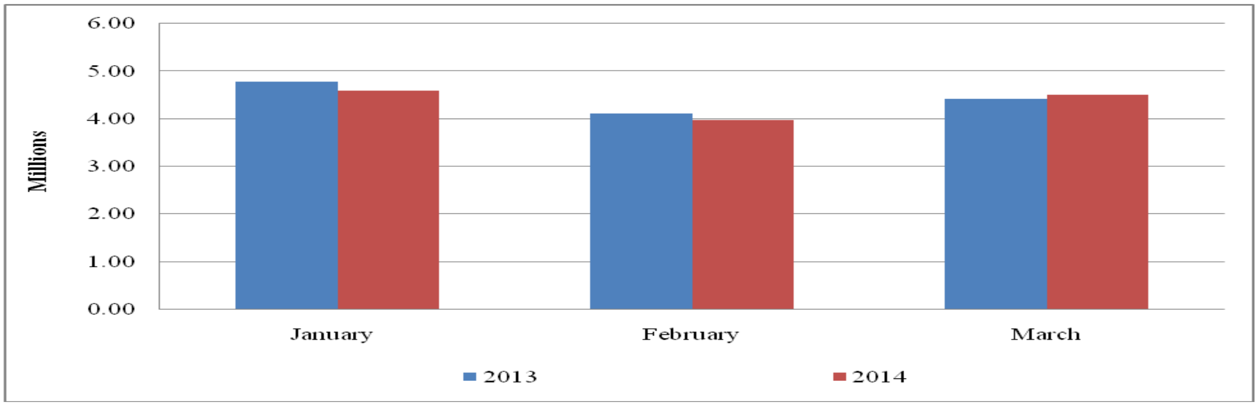
Source: 2013 National Wheat Report

Normally, farmers are forced to plant the winter crop late due to lack of funding. It is imperative to avail funding to the wheat farmers possibly through contract farming so that they plant on time. Provision of constant supply of electricity will also unlock farmers' potential as their production is often hampered by erratic power supply.

2.6.3 Milk Production

Milk production in the first quarter of 2014 was slightly lower than that of 2013 for January and February, (Figure 17). Slight increased milk production of 2% was realised in March 2014 from the 4.4 million litres that had been produced same time in 2013 (Figure 17).

Figure 17: Milk Production between January- March in 2013 and 2014



Source: Dairy Services

Milk production in Zimbabwe continues to be hampered by high costs of production and low dairy herd among other challenges. Dairy herd was around 42,000 in 2000 but has since declined by 16.7% to around 35,000 in 2012. The country however, stands a chance to regain its competitiveness in this industry if it works on rebuilding the dairy herd as well as providing more lines of credit and skills to the farmers for them to adopt modern techniques of production which are more productive.

2.7 Mining Sector Developments

2.7.1 Major Minerals Outlook

Total mineral earnings for Zimbabwe (excluding diamonds) decreased by 12.5% for the first quarter of 2014to US$435.41 million, compared to the same period in 2013,wherein US$497.63 million was realised, according to figures from the Chamber of Mines Zimbabwe[2]. The decrease in revenue can be attributed to the poor performance of mineral prices on the international market, (see section 1.3.1). Gold was the major contributor to total revenue, accounting for 31.15% whilst platinum contributed 28.40% of the total mineral earnings. The government needs

[2] Chamber of Mines statistics provided upon request

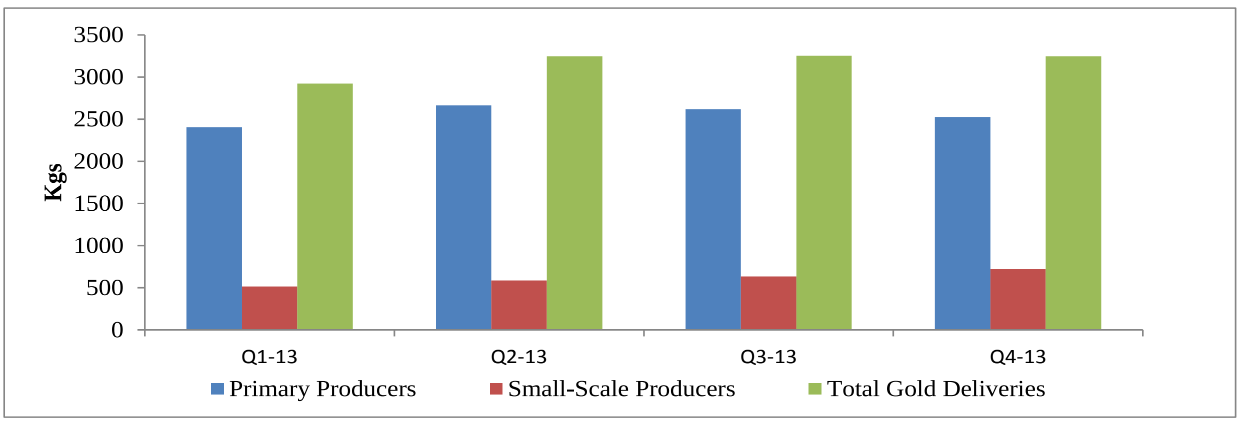
to finalise the proposals of legalising the operations of small scale miners to increase revenue flows to the fiscus as the country is underpinning its recovery on the proceeds from the mining sector.

Mining royalties for the first quarter of 2014, amounted to US$79.1 million against a target of US$ 31.2 million resulting in a positive variance of 154%. Compared to the same period in 2013, royalties grew by 83.53% from US$43.1 million collected in the first quarter of 2013 to US$79.1 million collected in the first quarter of 2014. The increase in royalties can be attributed to the removal of sanctions on Zimbabwe's diamond mining companies which enabled the sale of diamonds at Antwerp. In terms of contribution, gold mining companies in Zimbabwe pay 7% in royalties and diamond miners pay 10%. Platinum miners also pay 10% but could face a further 15% levy on unprocessed platinum shipments. Meanwhile, there is market speculation that the Government is likely to revoke the amendment of the fiscal law that stops mining companies from claiming royalties for tax purposes. It is envisaged that the move, if meted out, is likely to impact positively on attracting new investments, contrary to the announcement in the 2014 National Budget of making mining royalties non-deductible for income tax purposes.

2.7.2 Gold Deliveries

Total gold deliveries declined by 0.73% from 2920 kg in the first quarter of 2013 to 2898.63 kg in the first quarter of 2014. Deliveries by primary producers decreased by 3.20% from 2404.63 kg in the first quarter of 2013 to 2327.80 kg in the first quarter of 2014 whilst deliveries by small-scale producers increased by 10.76% from 515.37 kg in the first quarter of 2013 to 570.83 kg in the first quarter of 2014.

Figure 18: Gold Deliveries on a Quarter on Quarter Basis from 2013 to 2014



Source: Fidelity Printers and Refineries

On a quarter-on-quarter basis, total gold deliveries decreased by 10.69 percent from 3,245.71 kg in the fourth quarter of 2013 to 2,898.63 kg in the first quarter of 2014 (Figure 18). Cumulative deliveries by primary producers decreased by 7.83 percent from 2,525.43 kg in the fourth quarter of 2013 to 2,327.80 kg in the first quarter of 2014, whilst cumulative deliveries by small scale producers decreased by 20.75 percent from 720.29 kg in the fourth quarter of 2013 to 570.83 kg in the first quarter of 2014.The decrease in total gold deliveries can be attributed to the poor performance of commodity prices on the international market.

2.7.3 Other Mining Developments

The Government of Zimbabwe is in the process of reviewing the draft minerals development policy with a view to coming up with a new Mines and Minerals Development Act. Mining in Zimbabwe has been characterised by outdated laws and policy inconsistencies which have undermined the sector’s management, performance and overall contribution to the country’s development. It is, therefore, anticipated that the new policy framework will promote effective and efficient management of resources through improving the mining industry regulatory framework and also addressing issues to deal with mineral governance, with a view to attract investment, boost productivity and beneficiation in the sector.

2.8 Manufacturing Sector Developments

The first quarter of 2014 saw the measures announced in the 2014 National Budget taking eefect. The Government imposed import duty as a way of both discouraging imports and protecting local industry. Industries affected by the tariff changes include the following:

- Steel and Plastic industry;
- Dairy and processing industry;
- Biscuit industry;
- Paint Industry;
- Metal and electrical industry;
- Rubber industry;
- Oil industry ; and
- Blanket industry.

The importation of all the products which have been subjected to increased tariffs with their tariff codes given (including raw materials) constituted about only 3.4% of the total imports in 2013, an increase from about 2.8% in 2012. Given that the products were 2.6% of imports in 2011, there was a noticeable increasing pattern for these products, which could explain where the pressure for imposition of tariffs came from.

Since the products constitute only a small percentage of imports, this is not likely have a significant impact in overall balance of trade position to levels that could have an impact on the liquidity position of the country. However, they have the possibility of contributing positively towards local industry development if they have the ability to do so. Imports during the first quarter of 2014 decreased by about 11.6% compared to the first quarter of 2013 (see section 2.9), which could indicate that the system has indeed imposed some downward pressure on imports. Since the economy is not registering any shortages, this could indicate that local firms are filling in the gap, unless the products are being smuggled into the country.

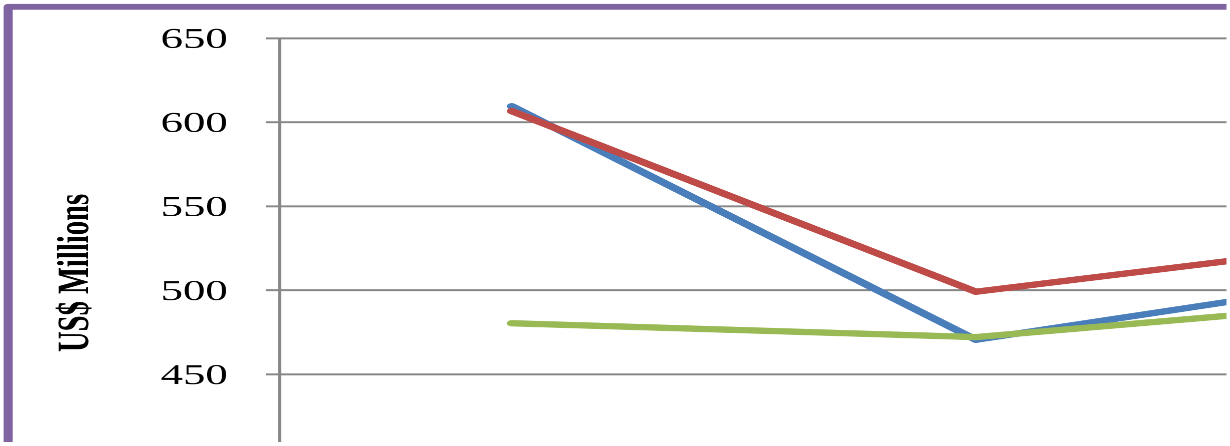
Given the current challenges bedeviling the manufacturing sector, a protectionist strategy can however be counter-productive. The capacity of the local industry to respond could turn out to be difficult, as most firms are using antiquated machinery and technology and are not able to match what their counterparts in the region are using. This calls for significant capital injection to overhaul the production systems in most industries. Policy incentives to boost production could also be required to enhance the capacity of the local firms to increase production. The state of the industry could also create a time lag before firms can take advantage, which could also see continued importation of the products at higher prices due to the increased tariffs. This implies that the imposition of the tariffs could have negative effects on consumer welfare, at least in the short term, as consumers would still be subjected to tariff induced price increases. However, there was no evidence of this happening during the period under review.

2.9 External Sector Developments

The first quarter in 2014 saw a very small improvement in the country's trade deficit, although this is still a major concern, as it is the primary driver of the country's balance of payment deficit. The trade deficit during the first quarter of 2014 fell marginally by about 0.5% compared to the same period in 2013 to about US$822.2 million. While the improvement is marginal, it is a reversal of the trend that had been observed in 2013, where the trade deficit had actually worsened by 7.4% during the first quarter in comparison to the same period in 2012. The small gain is thus encouraging.

A look at the imports and exports statistics however would reveal that the improvement in the trade deficit was mostly a reflection of the fall in imports rather than an improvement in exports. Imports during the first quarter of 2014 decreased by about 11.6% compared to the first quarter of 2013 to about US$1.4 billion. This can be attributed to the liquidity crunch which worsened in 2014 as well as the protectionist stance on some select manufactured products under the 2014 National Budget Statement. However, although imports fell, relative to the previous years, there is still an upwards trend that is observable between January and March 2014 (Figure 19), which could also imply that imports might increase as the year progresses.

Figure 19: Imports during the First Quarter, 2012 to 2014 in US$ Millions



Source: ZIMSTAT

There was also a significant decrease in exports during the period to about US$625.9 million for the first quarter, a decrease of 23% compared to the first quarter of 2013 (Figure 20). A look at the trends since 2012 would also reveal that the trend in 2014 is worse than the previous two years, underlining the need for policy reforms aimed at boosting exports. Exports have also registered a declining trend during the first three months of 2014, unlike in 2012 where an upward trend was registered. Although the same trend was also registered in 2013, it has worsened in 2014. Production incentives for exporting firms are needed to encourage exports, especially under the current context where the debate for the introduction of the local currency in the long term is taking pace.

Figure 20: Exports During the First Quarter, 2012 – 2014 in US$ Millions

Source: ZIMSTAT

Fuel and lubricants dominated the imports, as they constituted 24% of imports during the first quarter of 2014. This represents an increase of four percentage points compared to the same period in 2013. The importation of fertiliser, which constituted 2% of total imports during the first quarter in 2013, was at 3% of imports during the same period in 2013. Maize imports also increased from only 1% of imports during the first quarter of 2013 to 4 percent of imports during the same period in 2014. As expected, primary agriculture and mineral products dominated the exports during the period under review. These include semi-manufactured gold (19%), diamonds (13%), tobacco (excluding cigarettes) (15%) and sugar (6%). Value addition of these products could create competitiveness in higher value products which would help increase the value of the exports.

2.10 Tourism Developments

The government, through the 2014 National Budget, reintroduced the duty rebate on capital goods imported by tourism operators and also suspended duty on motor vehicles used by safari operators for another year, to 2015. The move provide financial relief for hotels and tour operators in order upgrade their facilities and acquire new vehicles so as to improve their products and services to match international standards.

On the contrary, the decision by government to extend a VAT to accommodation services for non-resident tourists, is likely to increase accommodation prices as hoteliers pass on the cost to consumers. Hence, making the hotel industry uncompetitive compared to other regional counterparts, particularly given that the US dollar has been strengthening against the South African Rand and other currencies. Furthermore, Zimbabwe's VAT rate of 15% is high compared to neighbouring countries like South Africa (14%) and Botswana (12%). When the VAT system was introduced in Zimbabwe, the travel and tourism sector was exempted from VAT on foreign visitor payments as it was considered an exporter.

3.0 TOPICAL ISSUES

3.1 IMF Extends the Staff-Monitored Program for Zimbabwe

The Management of the International Monetary Fund (IMF), in January 2014, approved a six-month extension of the Staff-Monitored Program (SMP) for Zimbabwe, following a request by the Government of Zimbabwe. The six-month extension will allow time for the Government to strengthen policies and deliver on outstanding commitments under the program.

The SMP was approved by IMF Management in June 2013 for the period April–December 2013. A SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program and do not entail financial assistance or endorsement by the IMF Executive Board. Zimbabwe's SMP seeks to support macroeconomic adjustment and reform program, focusing on: achieving fiscal sustainability, while protecting infrastructure investment and priority social spending, strengthening public financial management; increasing transparency in mining; reducing financial sector vulnerabilities; restructuring the central bank; and rebuilding of fiscal buffers and international reserves. Successful implementation of the SMP would be an important stepping stone toward helping Zimbabwe re-engage with the international community, for financial support and debt resolution.

The extension will be subject to regular visits and monitoring by the IMF staff team, to ensure that the Program targets are met.

3.2 African Development Bank Extends Six Grants to Zimbabwe

The African Development Bank (AfDB) extended Six Grants to Zimbabwe following the signing of a US$53.4 million Agreement in January 2014. The Six grants will benefit youth, tourism, water and sanitation, transportation, emergency power, and public finances. Three of the grants, worth US$39.9 million, will be funded from the Zimbabwe Multi-Donor Trust Fund (Zim-Fund) while the remaining ones, worth US$13.5 million, will be financed by the African Development Fund (ADF).

These projects are intended to help Zimbabwe to recover from a pre-2009 decade of economic decline which was characterised by hyperinflation, low industrial capacity utilization; decline in agricultural production; dilapidated transportation infrastructure of road and rail networks; poor water supply, and power shortages. In addition, funding from the AfDB will go a long way in complementing the government's low fiscal revenues in support of sustainable growth and development. There is, therefore, need to ensure the smooth implementation of the projects, so that they yield the desired results.

3.3 IMF Article IV Consultations with Zimbabwe

AN IMF staff team conducted the 2014 Article IV Consultation with the Government of Zimbabwe during the period 12-26 March2014, in Harare. Discussions during the Article IV Consultations combined a review of the SMP. The discussions covered recent economic developments and the near and medium-term outlook and risks for Zimbabwe; implementation of the policies and reforms under the SMP; and implementation of other policies to restore fiscal and external sustainability, enhance financial sector stability, and unlock the country's potential for sustained growth and poverty reduction.

The discussions noted that the economy was decelerating from the peak of 11.9% in 2011 to 3.4% in 2013, reflecting the impact of adverse weather conditions, weak prices for key exports, competitive pressures, low liquidity, and election-year uncertainty. The 12-month inflation rate decelerated from 2.9% end-2012 to 0.3% at end-2013 (and further -0.5% in February 2014), reflecting weak domestic demand and the depreciating South African rand. The external account deficit widened in 2013, and reserves remain significantly below adequate levels. Fiscal policy in 2013 was challenged by election-related spending pressures and higher-than-budgeted employment costs.

Furthermore, the IMF noted that the SMP provided a useful anchor for Zimbabwe's economy in an election year; however, the electoral process and the transition to a new government affected the pace and scope of implementation of the policies and reforms under the program. The new Government has, however, reiterated its commitment to the SMP and is working towards achieving the program objectives.

At the conclusion of the Consultations, the IMF Staff noted that the macroeconomic environment is expected to remain challenged in 2014, and the outlook is for continued moderate growth. Hence, achieving Zimbabwe's fuller growth potential over the medium term, require implementation of strong macroeconomic policies, including building up fiscal and external buffers and increasing budgetary resources towards non-personnel related spending, and implementing structural reforms to foster investment, improve the business climate, and strengthen governance and institutions, including increasing the transparency of the minerals regime. Further, the country would need to engage with its creditors to work towards a solution to the long-standing debt arrears problem.

4.0 CONCLUSION

The ZEPARU Leading Indicator Index has highlighted that economic growth is weakening and the medium term growth prospects remain weak. This is also evidenced by the lower performance of all indicators used in the compilation of the Index, including falling stock market activity, declining imports of intermediate goods, and high lending rates. Further, Year-on-Year inflation has been declining to -0.91% in March 2014. This, disincentives producers and also impacts negatively on borrowing as it increases the real debt burdens, to the detriment of the country's growth prospects. In addition, budget revenues, growth in banking sector deposits and mining revenues have all been declining.

Hence, reversing the economic decline require decisive policy actions by the Government that addresses the above. It is noted that achieving Zimbabwe's growth potential over the medium term, require macroeconomic reforms that deliberately focus on the following:

- building up fiscal and external buffers, which have remained inadequate;
- increasing budgetary resources towards growth-enhancing spending;
- reforming and improving the doing business environment, to attract investment;
- enhancing transparency of the minerals regime, to extract more benefit to the economy;
- Strengthening the banking sector and enhancing confidence; and
- Support export growth.

Furthermore, there is need for continued commitment by the Government on the implementation of the SMP, which is a key instrument of reform. In addition, the government would need to mobilise concessionary loans and non-debt creating flows such as grants and investment, to help spur growth, by complementing the low government revenues, without exacerbating the debt situation.

STATISTICAL TABLES

TABLE 1A: International Commodity Prices

	2012							2013					
	Sep	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**April**	**May**	**Jun**	**Jul**	**Aug**	**Sep**
Gold (US$/oz.)	1,655.87	1,746.54	1,722.74	1,689.06	1,669.78	1,629.14	1,591.92	1,486.05	1,414.26	1,342.66	1,278.22	1,278.22	1,278.22
Platinum (U$/oz.)	1,507.05	1,640.13	1,576.64	1,588.25	1,631.74	1,674.75	1,583.05	1,487.94	1,476.80	1,430.98	1,399.02	1,399.02	1,399.02
Brent crude ($/bl.)	111.76	111.55	109.32	109.01	112.22	116.24	109.49	102.77	103.68	103.23	107.14	107.14	107.14
Maize (U$/t) 3YC	320.80	321.20	321.60	308.60	303.10	302.70	309.00	279.00	295.50	298.40	285	285	285
Wheat (U$/t) HRW	353.40	n/a	360.80	348.00	335.50	318.90	309.70	308.30	319.70	313.40	311	311	311

Sources: Bloomberg, IGC, BBC, Reuters, US$A, World Bank

TABLE 1B: Annual Inflation (%)

Jan-10	**Feb-10**	**Mar-10**	**Apr-10**	**May-10**	**Jun-10**	**Jul-10**	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**
-4.75	-0.73	3.52	4.79	6.07	5.31	4.15	3.6	4.22	3.6	4.18	3.23
Jan-11	**Feb-11**	**Mar-11**	**Apr-11**	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
3.52	3.04	2.67	2.69	2.50	2.86	3.26	3.54	4.29	4.20	4.20	4.90
Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**	**Sep-12**	**Oct-12**	**Nov-12**	**Dec-12**
4.30	4.30	4.00	4.03	4.02	3.97	3.94	3.63	3.24	3.38	2.99	2.91
Jan-13	**Feb-13**	**Mar-13**	**Apr-13**	**May-13**	**Jun-13**	**Jul-13**	**Aug-13**	**Sept-13**			
2.51	2.98	2.76	2.49	2.20	1.87	1.25	1.28	0.86			

Source: ZIMSTAT

TABLE 1C: Monthly Inflation (%),

Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
0.74	0.96	1.12	0.12	0.26	-0.10	-0.13	-0.14	0.12	0.21	0.49	-0.44
Jan-11	**Feb-11**	**Mar-11**	**Apr-11**	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
1.03	0.49	0.75	0.14	0.08	0.24	0.26	0.13	0.85	0.1	0.5	0.2
Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**	**Sep-12**	**Oct-12**	**Nov-12**	**Dec-12**
0.46	0.49	0.43	0.19	0.07	0.20	0.22	-0.20	0.50	0.49	0.43	0.13
Jan-13	**Feb-13**	**Mar-13**	**Apr-13**	**May-13**	**Jun-13**	**Jul-13**	**Aug-13**	**Sep-13**			
0.07	0.95	0.21	-0.07	-0.21	-0.31	-0.38	-0.15	0.1			

Source: ZIMSTAT

TABLE 1D: Annual Broad Money (M3) Growth (%)

Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
	303.5	322.5	253.7	236.3	160.2	144.3	0.12	0.21	144.3	0.12	0.21
Jan-11	**Feb-11**	**Mar-11**	**Apr-11**	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
67.8	59	52.6	48.4	49.2	56.7	51.6	0.85	0.1	51.6	0.85	0.1
Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**	**Sep-12**	**Oct-12**	**Nov-12**	**Dec-12**
33.2	37.4	33.4	32.8	31.0	23.8	27.2	0.50	0.49	27.2	0.50	0.49
Jan-13	**Feb-13**	**Mar-13**	**Apr-13**	**May-13**	**Jun-13**	**Jul-13**	**Aug-13**				
21.1	12.9	10.5	14.9	12.2	6.9	4.3	5.8				

Source: Reserve Bank of Zimbabwe

Table 1E: Import Balances

	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Imports (c.i.f) US$	623,206,079	630,450,492	648,464,154	1,222,428,122	815,114,707	1,262,300,269	622,964,149	587,901,029
	Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**
Imports (c.i.f) US$	598,628,842	464,135,767	504,991,549	482,997,091	523,990,332	500,657,173	674,429,368	799,467,460
	Sep-12	**Oct-12**	**Nov-12**	**Dec-12**	**Jan-13**	**Feb-13**	**Mar-13**	**Apr-13**
Imports (c.i.f) US$	633,025,036	890,785,181	713,429,472		606,978,552	499,114,708	524,029,984	954,816,853.
	May-13	**Jun-13**	**Jul-13**	**Aug-13**				
Imports (c.i.f) US$	569,784,607	708,249,543	571,169,449	702,886,855				

Sources, ZIMSTATS

Table 1F: Export Balances

	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Exports (US$)	288,743,562	373,029,213	388,786,028	221,313,963	226,974,741	143,866,926	245,169,257	376,849,339
	Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**
Exports (US$)	258,124,310	255,206,355	310,041,948	227,253,008	278,161,855	232,719,132	338,045,622	449,726,798
	Sep-12	**Oct-12**	**Nov-12**	**Dec-12**	**Jan-13**	**Feb-13**	**Mar-13**	**Apr-13**
Exports (US$)	324,343,098	479,941,695	415,207,388	314,872,655	280,117,912	278,455,094	253,239,401	209,594,460
	May-13	**Jun-13**	**Jul-13**	**Aug-13**				
Exports (US$)	277,792,966	243,892,509	286,348,378	281,678,680				

Sources: ZIMSTATS

Table 1G: Foreign Exchange Rate

	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sept-13
US$/ Rand ***(end period)***	8.41	8.31	8.68	8.82	8.50	8.72	8.89	9.18	9.10	9.34	10.05	9.91	10.08	9.98

Sources: Reserve bank of South Africa,

Table 1H: Total Banking Sector Deposits (US$)

	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13
Demand Deposits	1,871,724.30	2,031,531.20	1,978,341.39	1,965,022.70	2,086,622.60	2,045,215.90	1,989,201.50	2,038,302.96	2,011,314.80
Saving and Short-Term Deposits	1,014,873.70	1,192,706.60	1,269,131.48	1,307,075.90	1,353,710.50	1,297,619.00	1,284,243.30	1,325,030.04	1,252,640.40
Long-Term Deposits	331,299.50	584,157.70	566,144.07	526,425.50	526,409.40	675,306.60	564,762.50	491,588.70	532,281.50

Sources: Reserve Bank of Zimbabwe

Table 1I: Gold Deliveries

	Sept-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Gold Production (kg)*	1114	1199	1110	1052	967	962	990	1082	1131	1033	1189	1049	1012

*Sources: Fidelity Printers and Refineries, * monthly averages*

Table 1J: Diamond Production

	2010				2011				2012			
	January-June		July-December		January-June		July-December		January-June		July-December	
Diamond Production	**Volume (cts)**	**Value (U$m)**	**Volume (cts)**	**Value (U$m)**	**Volume (cts)**	**Value (U$m)**	**Volume (cts)**	**Value (U$m)**	**Volume (cts)**	**Value (U$m)**	**Volume (cts)**	**Value (U$m)**
	4,881,663.55	153.41	3,553,560.47	186.34	2,554,069.48	153.3	5,948,578.59	322.92	6,069,683.23	321.67	5,990,479.47	322.37

Sources: KPSC (https://kimberleyprocessstatistics.org)

Table 1K: Government Budget

	Sept-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sept-13
Revenues (U$m)	326.4	267.5	269.0	419.5	254.5	269.5	314.0	271.0	303.6	395.2	323.0	306.7	254.5
Spending (U$m)	314.0	313.4	327.8	519.8	225.5	324.6	312.8	246.2	340.5	333.2	397.7	314.0	225.5
Balance (U$m)	12.5	-32.6	-34.6	-11.6	29.0	-55.1	-1.2	24.8	-36.9	62.0	-74.7	-7.3	29.2

Sources: Ministry of Finance, Note: monthly averages

Table 2A: Annual Economic Growth

	2008	2009	2010	2011	2012
GDP Growth (%)	-17.7	6.0	9.0	10.6	4.4*
GDP (US$ Million)	4,416	5,899	8289.6	10068	11597*

Source: ZIMSTAT, estimates*

Table 2B: International Commodity Prices

	2008	2009	2010	2011	2012
Gold (US$/oz.)	871.64	982.50	1 218.59	1 358.42	176,671.00
Platinum (US$/oz.)	1 577.00	1 212.25	1 608.23	1 721.92	1530.71
Brent crude ($/bl.)	-	-	-	-	111.31
Maize (U$/t) 3YC	-	-	-	291.70	298.40
Wheat (U$/t) HRW	-	-	-	316.30	313.20

Source: International Grain Council, BBC, Reuters

Table 2C: Trade & Balance of Payments

	2008	2009	2010	2011	2012
Exports - Total Goods (US$ Millions)	1 660.43	1 613.27	3 245.45	3 557.02	3883.64
Imports - Total Goods (US$ Millions)	2 629.55	3 213.07	5 864.93	8 594.28	7483.99
Current Account Balance (US$ Millions)	-775.34	-1 140.30	-1 917.80	-3127.20	-2563.40*
Overall Balance (US$ Millions)	-725.23	-1867.00	-412.05	-593.30	-477.50*

*Sources: ZIMSTATS import figures for 2008 and 2009 are f.o.b, * estimates*

Table 2D: Foreign Exchange

	2008	2009	2010	2011	2012
Exchange Rate ZAR per US$	8.26	8.28	7.31	7.28	8.48
Import Cover Ratio (months) *(at 100% ; Goods and Services)*	-	1.2	1.0	0.635	0.7*
External Debt (US$ Million)	4,690	6,289	6,695	7,160	-
External Debt (% of GDP)	147.70%	102.50%	90.10%	80.8%	-

*Source: Reserve Bank of Zimbabwe, * estimates*

Table 2E: Banks Deposits, Assets and Credit

	2009	2010	2011	2012
Bank Assets (Annual Average) (US$ Million)	-	2,271.80	3,393.70	5528.47
Deposits (Annual Average) (US$ Million)	-	-	2.793.73	3593.81
Bank Credit to Private Sector (Annual Average) (US$ Million)	-	1.235	2.344	3.100
Loan/Deposit Ratio (Annual Average) %	-	-	83%	87.3%

Source: Reserve Bank of Zimbabwe

Table 2F: Zimbabwe Stock Exchange Indices

	2009	2010	2011	2012
ZSE Industrial Index (Annual Average)	151.99	151.3	157.54	140.26
ZSE Mining Index (Annual Average)	185.5	200.4	173.7	86.73

Source: Zimbabwe Stock Exchange

Table 2G: Business / Production Indicators

	2008	2009	2010	2011	2012
Gold Production (Kg)	3 579.00	4 966.00	-	12993	14735.12
Platinum Production(Kg)	5 495.10	6 848.90	-	10827	10524.24
Tobacco Sales (Kg Millions)	69.79	63.6	85.04	133	144.5*
Maize Production (Kg Millions)	435.16	1 242.56	1 322.57	1 451.63	968*
Cotton Production (Kg Millions)	226.44	246.76	172.13	250	350*

*Source: Chamber of Mines, TIMB and Agritex, MoF, * estimates*

Table 2H: Government Budget

	2009	2010	2011	2012
Revenues (US$ Million)	897.49	2 339.06	2 921.02	3495.78
Spending (US$ Million)	850.28	2 106.95	2 895.85	3607.67
Balance (US$ Million)	47.21	232.11	25.17	(111.89)

Sources: Ministry of Finance