ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT

ZEPARU

THE ZEPARU ECONOMIC BAROMETER

Volume 8

April 2013

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Citation

This publication is cited as “ZEPARU (2013), The ZEPARU Economic Barometer, Volume 8, Page Number”

ISBN No. 978-0-7974-4733-2

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ABBREVIATIONS

Agritex	Agriculture and Extension Services
AMCU	Association of Mineworkers and Construction Union
BTF	Boka Tobacco Floors
CBZ	Commercial Bank of Zimbabwe
CMED	Central Mechanical Equipment Department
COMESA	Common Market for East and Southern Africa
COPAC	Constitution Parliamentary Select Committee
DIMAF	Distressed and Marginalised Areas Fund
EAC	East African Community
FOMC	Federal Open Market Committee
FTA	Free Trade Area
GMB	Grain Marketing Board
ha	Hectare
IMF	International Monetary Fund
MENA	Middle East and North Africa
MoF	Ministry of Finance
OPEC	Organization for Petroleum Exporting Countries
PTF	Premier Tobacco Floor
RBZ	Reserve Bank of Zimbabwe
RECs	Regional Economic Communities
SADC	Southern African Development Community
SSA	Sub Saharan Africa
TIMB	Tobacco Industry and Marketing Board
TSF	Tobacco Sales Floor
TTNF	Tripartite Trade Negotiation Forum
UNWTO	United Nations World Trade Organization
US	United States
USD	United States Dollars
WEO	World Economic Outlook
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZESA	Zimbabwe Electricity Supply Authority
ZETREF	Zimbabwe Economic and Trade Revival Facility
ZIA	Zimbabwe Investment Authority
ZIMRA	Zimbabwe Revenue Authority
ZIMSTAT	Zimbabwe Statistics Agency
ZINWA	Zimbabwe National Water Authority
ZSE	Zimbabwe Stock Exchange
ZTA	Zimbabwe Tourism Authority

ACKNOWLEDGEMENTS

This review was prepared by the research staff of the Zimbabwe Economic Policy Analysis and Research Unit (ZEPARU). Work was undertaken under the guidance of the Executive Director, Dr G. Chigumira. ZEPARU greatly acknowledges Government Ministries and Institutions which provided data and information used in this report. These institutions include the Ministries of: Finance (MoF), Industry and Commerce and Tourism and Hospitality Industry, the Reserve Bank of Zimbabwe (RBZ) the Zimbabwe Stock Exchange (ZSE), the Grain Marketing Board (GMB), Zimbabwe Investment Authority (ZIA), Agriculture and Extension Services (Agritex), Zimbabwe Statistical Agency (ZIMSTAT) and Zimbabwe Tourism Authority (ZTA), among others.

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Type-setting and Printing:

Cover Design:

EXECUTIVE SUMMARY

Global growth is projected to strengthen gradually through 2013, averaging 3.5%, on the back of strong policy actions that have lowered acute crisis risks in the Euro area and the United States of America (USA), coupled with an acceleration of activity in emerging market economies. Activity in Sub-Saharan Africa (SSA) is expected to remain robust at 5.8% from 4.8% in 2012.

An upward trend in gold prices in the first quarter of 2013 was driven by the appreciation of major currencies, including the Indian rupee, Australian and Canadian dollar. However, a 5% decline in February 2013 was the worst decline in gold prices since May 2012. The decline was mostly driven by the Federal Open Market Committee (FOMC) pledge to maintain low interest rates until mid-2015 and contraction in housing starts in the US. The quarter ended with gold price on a steady increase.

The expectations of economic recovery in China and subsequent increased demand for platinum from the country's manufacturing industry contributed to a rise in platinum price from US$1,551 per ounce in early January to close the quarter at US$1,580 per ounce. Inadequate supply of platinum in February, following the much publicised problems in South African mining industry and increasing tensions in Zimbabwe also led the price of platinum to go up. The increase in the crude oil price in the first quarter of 2013 was driven by the reduction in crude oil supply from the Organization for Petroleum Exporting Countries (OPEC) which edged down productions by 464 thousand barrels per day to reach 30.365 million barrels in December 2012.

On revenue and expenditure performance, cumulative revenues for the first quarter 2013 amounted to US$764.96 million against expenditures of US$771.94 million. The expenditure mix remains highly consumptive with recurrent expenditures accounting for 92.65% of the cumulative total expenditures at US$715.2 million, whilst the capital budget accounted for the remainder, at US$51.58 million. Employment costs, which accounted for 62.84% of total expenditures and 67.84% of the cumulative recurrent budget continue to be the major drain on the fiscus and crowding out the public sector investment programme.

On the manufacturing sector, lines of credit to the sector are expected to come from the Zimbabwe Economic Revival Trade Facility (ZETREF) II and the Distressed Industries and Marginalised Areas Fund (DIMAF) II to boost the performance of the sector. Some mining fees were reviewed downwards in a move to further promote investment in the sector. Application fees for registering as an approved prospector, fees for an ordinary prospecting licence, fees for base metal claims, first and second inspection for gold claims and protection fees for grounds that have not been mined were reviewed downwards by 20, 25, 50, 0 and 90%, respectively. The fees are, however, still too high since there was a substantial increase of the mining fees in January 2012. The current reduction is also above the recommended fee by the Chamber of

Mines of Zimbabwe, hence it acts as a barrier to entry to prospective investors and it reduces profitability of those in operation. Registration fees for gold claims and fees for diamonds and platinum remained unchanged.

The area planted for major food crops was reduced by 22.4% in the 2012/13 season from 1,930,082 hectares planted last year to 1,498,455 hectares this season. This is due to inadequate financial support in the agriculture sector as well as the late rains. Thus, the sector must invest in farming strategies that help the farmers to respond effectively to the effects of climate change that have had serious impacts on the rainfall patterns. These strategies include among others, irrigation schemes, research and development on drought resistant crops and conservation farming. Timely payment of farmers for crops and livestock products will also enable them to inject proceeds into their agricultural activities.

Registered tobacco farmers increased from 58,801 at the end of March 2012 to 82,833 by 28 March 2013. By the week ending 28 March total sales amounted to 42,783,015 kg representing a 23.89% increase in the amount of tobacco that had been sold in the same period of 2012. At the close of the first quarter of 2013, 39% of the tobacco had been sold through the three auction sales, namely Tobacco Sales Floor (TSF), Boka Tobacco Floors (BTF) and Premier Tobacco Floor (PTF), whilst the rest (61%) was traded through the contract system. The price for the contract system was US$3.77 compared to US$3.69 for the auction floors. In both markets tobacco was traded at an average price of US$3.74/kg as compared to US$3.71/kg last year.

On banking and other financial sector developments, the Reserve Bank of Zimbabwe (RBZ) and banking institutions signed a Memorandum of Understanding (MOU) on the 31st of January 2013 on the agreed framework for bank charges and interest rates. This development is expected to result in a reduction in average lending rates in the economy. The affordability of loanable funds, as a result of an expected decline in lending rates, is likely to increase demand for such funds. This may, however, worsen the liquidity situation currently obtaining in the country. To avert the critical liquidity situation, there is need to improve exports and resolve the country's adverse debt situation so as to open more lines of credit to the country.

As at February 2013, total banking sector deposits, net of inter-bank deposits, stood at US$3.813 billion. This compares unfavourably to US$3.89 billion at the end of the 4th quarter of 2012. In January and February 2013, the loan-to-deposit ratio stood at 93.4% and 93.7%, respectively. Compared with an average loan-to-deposit ratio of 90.4% in the 4th quarter of 2012, it shows that banks might be increasing risk exposure by lending more of deposits, which are largely transitory in nature. Hence, the deposit base needs to be expanded in order to sustain such high levels of lending. International best practise recommend 70-90% loan-to-deposit ratio. A cause for concern is that the bulk of the loans & advances accessed at banking institutions are mainly utilised for recurrent expenditures, which amounted to 78.2%, with the remaining balance

(11.2%) for capital expenditures. This pattern of loan utilisation is attributed to the short-term nature of the deposit base and high credit and liquidity risks prevailing in the economy.

Apart from slowing economic growth, an adverse balance of payments (BOP) position, where import payments far outstrip export receipts is also contributing to declining liquidity in the country. Measures to boost exports, should thus continue to be prioritized, especially given that the trade deficit is being financed largely through further accumulation of arrears. The trade deficit can be reduced with a general improvement in the productive capacity of local industries as well as improvements in the agriculture sector to reduce importation of agriculture commodities. Since the importation of products which are not locally available such as fuel and lubricants constituted only 19.6% of total imports in 2012, the need for local industry revival becomes paramount.

The industrial index performed well in the first quarter of 2013, compared to same period last year. The improved performance can be attributed to recovery in some sectors of the economy which have seen some counters like CBZ, Fidelity life, Nicoz Diamond and Dairiboard Zimbabwe Limited posting profits and declaring dividends. To the contrary, the mining index trended low in the first quarter of 2013 with the index averaging 74.02 as compared to an average of 86.82 in the same period in 2012. This may be due to the uncertainty over the full implementation of the Indigenisation and Economic Empowerment policy and the impending general elections to be held later this year. Investors in the mining sector have adopted a wait and see attitude with regards to their investment decisions.

In line with the Trilateral Host agreement between United Nations World Tourism Organisation (UNWTO), Zimbabwe and Zambia signed in May 2012, the third inspection visit was made in the first quarter of 2013 to assess the state of preparedness of hosting the 20th Session of the UNWTO General Assembly. The first two inspections held in February and August 2012 revealed that the UNWTO inspectorate team expressed satisfaction with the state of preparedness and indicated that everything was on course.

Trilateral and bilateral meetings attended by a tourism delegation from Zimbabwe at the UNWTO headquarters in Madrid Spain from 29 January to 5 February 2013 revealed that the UNWTO directorate expressed their interest to help Zimbabwe towards poverty reduction projects through sustainable tourism and finalization of the Tourism Master Plan which is set to be launched in August 2013.

A study which was completed by ZEPARU in the first quarter of 2013 has identified some of the challenges currently bedeviling the Tourism sector in the country. The areas that have been identified as priority areas requiring immediate attention for sustainable growth of the tourism sector include: lack of internal airline connectivity, lack of aggressive marketing of the

Zimbabwean destination, lack of institutional coordination, limited skills and experience, lack of domestic tourism promotion and an unfriendly visa policy. To position the tourism sector on a sustainable growth path the study recommended among others, the establishment of a tourism revolving fund drawing on lessons from Mauritius, reviewing internal airline connections and access to all tourist resorts, reforming the visa system, undertaking short term training programmes to address skills shortage and improvement of domestic and international marketing.

On trade relations developments, the Tripartite Trade Negotiation Forum (TTNF) held its 6th meeting on 25-26 February 2013, in Livingstone, Zambia to review progress on the Tripartite Free Trade Area (TFTA) negotiations. The meeting noted that the TFTA negotiation process is way behind schedule. The initial timeline of June 2012 was missed. The draft FTA and its annexes that had been prepared as the starting points for the negotiations are yet to be reviewed and negotiated.

On the 16th of March 2013 the country held a Constitutional Referendum, wherein, 3 079 966 voters, accounting for 93% of the votes cast, endorsed the draft Charter, whilst 179 489 (5%) voted against the draft, with the remaining 2% being spoilt votes. This paved the way for the gazetting of the Constitutional Bill on the 28th of March 2013. Once, the two-thirds majority required to pass the Bill is obtained from the House of Assembly and the Senate; the Bill will be placed before the President to assent it into law.

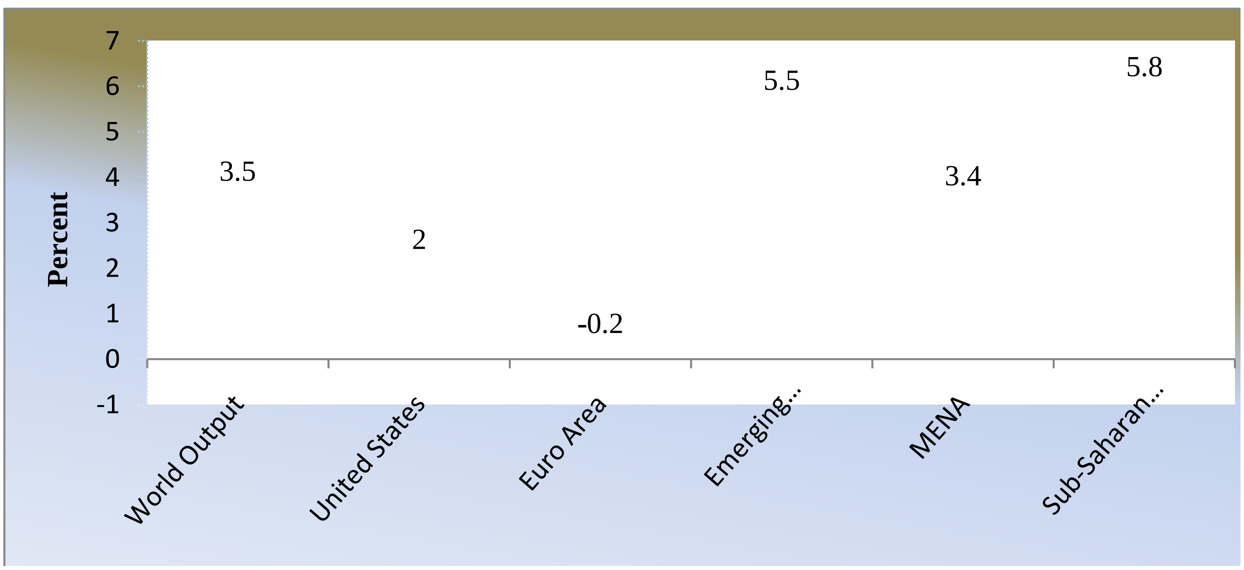
On the Human Development Index, the country is ranked 172 out of 187 countries, up from 173 in 2011. The country's HDI is in the low human development category, with a value of 0.397 for 2012. Between 1980 and 2012, Zimbabwe's HDI increased by 8% from 0.367 to 0.397. However, the country's 2012 HDI of 0.397 is below the average of 0.466 for countries in the low human development group and below the average of 0.475 for countries in SSA.

1.0 GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

1.1 World Economic Outlook Update

Global growth is projected to strengthen gradually through 2013, on the back of strong policy actions that have lowered acute crisis risks in the Euro area and the United States of America (USA), coupled with an acceleration of activity in emerging market economies. Against this backdrop, global growth is projected to averaging 3.5% (Figure 1), a moderate improvement from 3.2% in 2012. A further strengthening to 4% is projected for 2014, assuming recovery takes a firm hold in the Euro area economy, (World Economic Outlook, (WEO) 2013)[1].

Figure 1: World Economic Outlook Projections for 2013 (Percentage Change)



Source: WEO January 2013, Update

Growth in the USA is forecast to average 2% in 2013, on the back of a supportive financial market environment and a turnaround in the housing market, which has helped improve household balance sheets and is expected to underpin firmer consumption growth in 2013. However, the near-term outlook for the Euro area continues to pose a large downside risk to the global outlook. Activity in the Euro area is expected to contract by 0.2% in 2013, reflecting delays in the transmission of lower sovereign spreads and improved bank liquidity to private sector borrowing conditions, as well as high uncertainty about the ultimate resolution of the crisis despite recent progress. However, these bottle necks to growth are expected to ease during

[1] World Economic Outlook Update- January 2013, Gradual Upturn in Global Growth During 2013, the International Monetary Fund (IMF).

2013, provided that the planned policy reforms continue to be implemented, (WEO 2013). Growth in emerging markets and developing economies is projected to remain on track to build to 5.5% in 2013. Supportive policies have underpinned much of the recent acceleration in activity in many economies, including Brazil, India, Russia and China, which are expected to post relatively higher growth in 2013 as compared to 2012.

The Middle East and North Africa (MENA) region will need to maintain macroeconomic stability under difficult internal and external conditions. Growth in the region continues to be affected by political uncertainty and unrest in several countries. Thus, regional gross domestic product (GDP) is projected to slow to 3.4% in 2013, from 5.2% in 2012, before rising to 3.8% in 2014, assuming an easing of the current uncertainty and domestic unrest, strengthening of tourism, and recovery of the region’s exports in response to firming global demand.

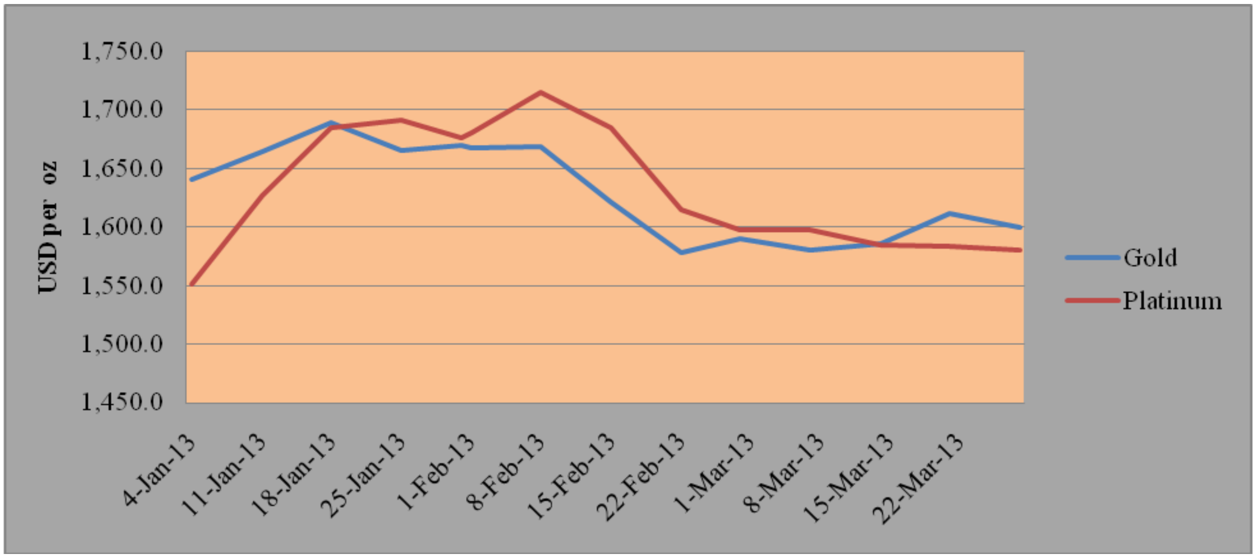
Economic growth in Sub-Saharan Africa (SSA) is expected to remain robust at 5.8% from the 4.8% in 2012, anchored by a rebound from flood-related output disruptions in Nigeria. Furthermore, strong domestic demand, accommodative and productivity-enhancing policy environment, increasing foreign direct investment flows, relatively high commodity prices, and increased export volumes in countries with new mineral discoveries (i.e. Sierra Leone, Niger and Mozambique), are expected to spur economic growth in 2013.

1.2 International Commodity Prices Developments

Precious Metals

Gold: The commencement of the first quarter of 2013 was marked by an upward trend in gold price, which was driven by the appreciation of major currencies including the Indian rupee, Australian and Canadian dollar. The gold price fell by 5% in the month of February to trade at US$1,578 per ounce as at 22 February, which was the worst decline in gold price since May 2012. The decline was mostly driven by the Federal Open Market Committee (FOMC) pledge to maintain low interest rates until mid-2015 and contraction in housing starts in the USA. The quarter ended with gold price on a steady increase influenced by the bailout debacle of Cyprus, which is believed to have caused, in the short term the demand for safe haven investment in gold. The appreciation of major currencies against the US dollar also pulled up the gold price towards the end of the first quarter of 2013 (Figure 2).

Figure 2: International Gold and Platinum Price Movements



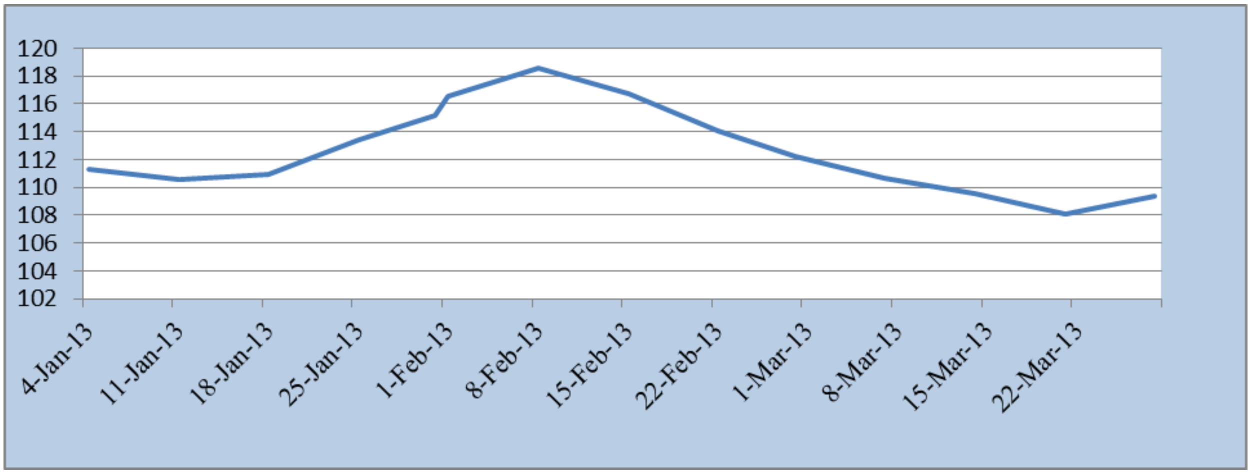
Source: *Source: Bloomberg and Reuters*

Platinum: The expectations of economic recovery in China and subsequent increased demand for platinum from the country's manufacturing industry contributed to a rise in platinum price in the first quarter of 2013. Platinum price rose from US$1,551 per ounce in early January to close the quarter at US$1,580 per ounce. The increase in the United Kingdom (UK) car sales of 11.5% in January 2013 also helped improve the platinum price in early February. In February 2013, platinum prices were mostly driven by inadequate supply of platinum, following the much publicised problems in South African mining industry and increasing tensions in Zimbabwe to trade as high as US$1,715 on the 8th of February[2]. The bearish mood towards platinum was also reinforced by the Association of Mineworkers and Construction Union (AMCU)s' decision to join the other unions in South Africa in signing an accord aimed at providing peace and stability in the mining sector; the Italian general election which resulted in a deadlock and also the official Chinese data which suggested a slowing of growth in its manufacturing sector.

Brent Crude Oil: The first quarter of 2013 commenced with price of crude oil on a positive trend, rising from US$110.69 per barrel on 31 December 2012 to close the month at US$113.46 per barrel in January 2013 (Figure 3). The increase in the crude oil price was driven by the reduction in crude oil supply from the Organization for Petroleum Exporting Countries (OPEC) which edged down productions by 464 thousand barrels per day to reach 30.365 million barrels in December 2012.

2 The main impact came from the seizing of 27, 948 hectares of land owned by Zimplats by the Government and also pressing for the platinum mining companies operating there to build a local refinery instead of shipping matte to South Africa for final processing.

Figure 3: Brent Crude Oil (US$ per Barrel)

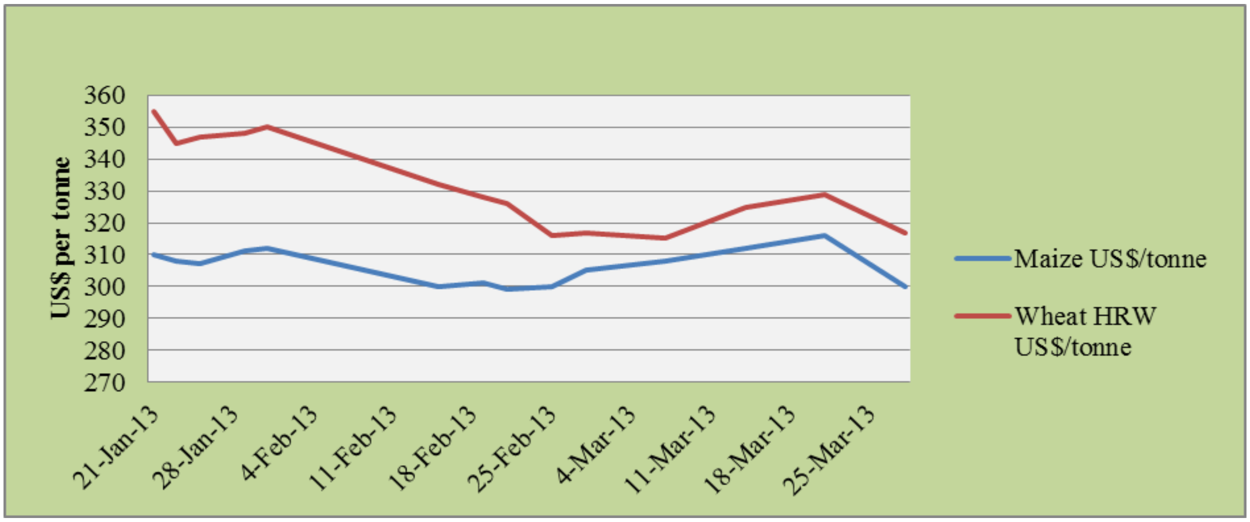


Source: Bloomberg and Reuters

Crude oil price increased notably in the first week of February owing to the effects of fiscal cliff aversion, which stimulated speculation on future oil dealings, from a close of US$116 per barrel at the end of January to US$119 per barrel on 8 February 2013. From the second week of February, however crude oil price went on a persistent decline closing the month of February at US$114 per barrel before further declining for the greater part of March reaching a low of US$108.08 on March 21. This was mostly attributable to comments by China Central Bank on stabilising inflation expectations which weighed in on Asian markets and also the low demand projection by the International Energy Agency (IEA).

Grains - Wheat: The speculations about dwindling Black Sea supplies and prospect of export curbs in Ukraine dominated the grain prices at the beginning of the first quarter 2013. Wheat prices which were on a decline in early January, however managed to rebound in the last week of the month to trade at US$350 per tonne on 31 January owing to the positive support from the US Department of Agriculture releases (Figure 4). The decline in the price of wheat in February was a result of sluggish export demand and the prospect of improved conditions for the US winter crop.

Figure 4: Maize and Wheat Prices (US), Free on Board (fob), Gulf



Source: International Grain Council

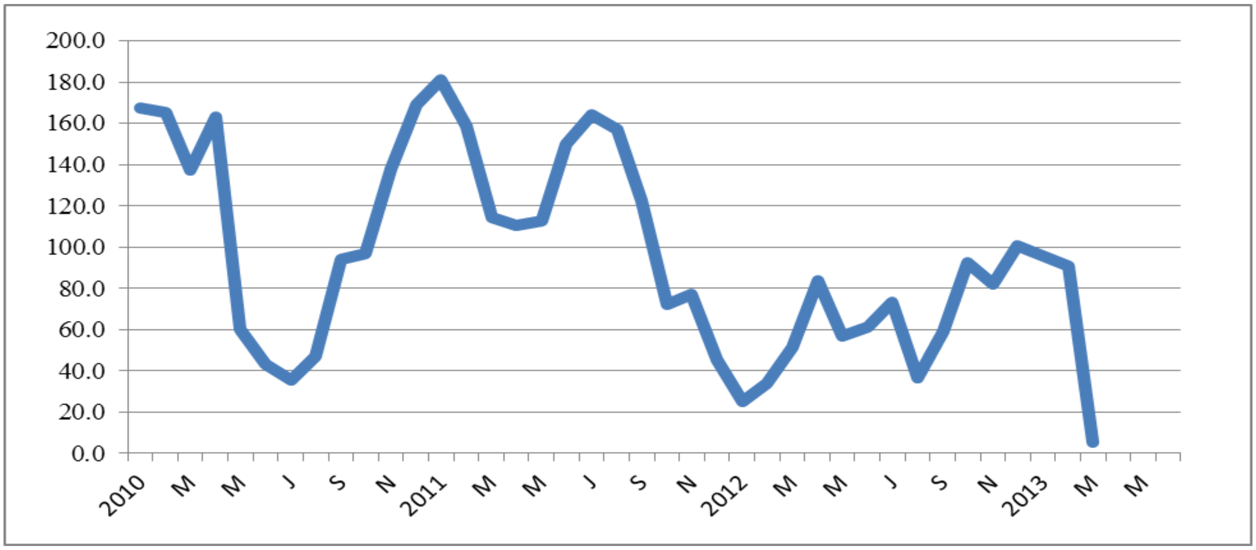
Maize: The high US feed estimates released in mid- January 2013, contributed to a rebound on maize price from the decline witnessed through December and early January. The price of maize was US$312 per tonne at the end of January and moved down to US$305 per tonne in February. Following official upward revisions by China and the USA, and brighter prospects for Argentina, International Grain Council global output forecast increased by 15 million tonnes, to 845 million tonnes. Maize price rebound for the greater part of March with the commodity trading at US$316 per tonne on 21 March. International Grain Council projects that, despite China's bumper harvest and potentially record-breaking crops in Brazil and Argentina, world output is forecasted to fall by 3% year on year in 2012/13.

2.0 MACROECONOMIC DEVELOPMENTS

2.1 Macroeconomic Overview

The impeding national elections have resulted in some investors adopting a wait-and-see attitude while withholding investment until the outcome of the elections is known. The postponement of investment decisions or implementation of Zimbabwe Investment Authority (ZIA) approved investment projects means that the economy is likely to grow below its potential. Minimising the election related uncertainty is crucial to sustain the economic growth momentum and performance of other macro-economic variables. In terms of economic outlook, the ZEPARU leading indicator index shows sharp fluctuations in economic activity (Figure 5).

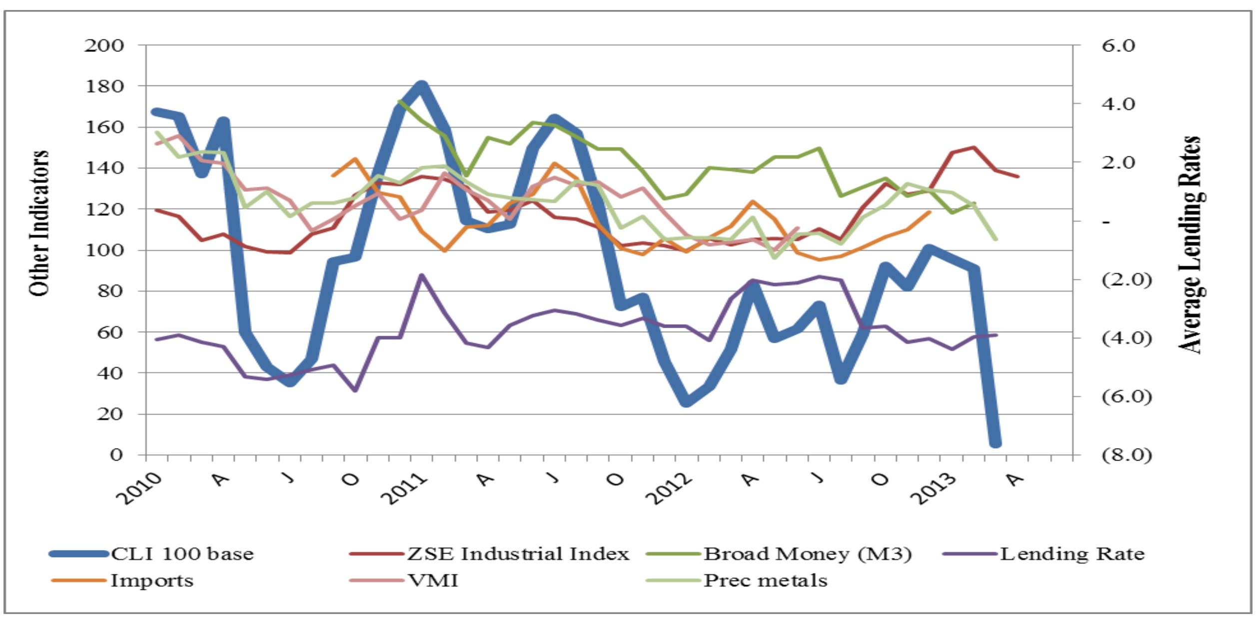
Figure 5: ZEPARU Leading Indicators Index



Source: ZEPARU

The index shows sharp fluctuations in general economic activity. On a month-on-month basis, there is high volatility in most of the economic indicators such as the stock market indices and aggregate money supply (total banking sector deposits), among others (Figure 6). The index shows a down turn in economic activity in the first quarter of 2013. This points to a need to strategise as to how activity can be boosted in the outlook period.

Figure 6: ZEPARU Leading Indicators Index and Its Components



Source: ZEPARU

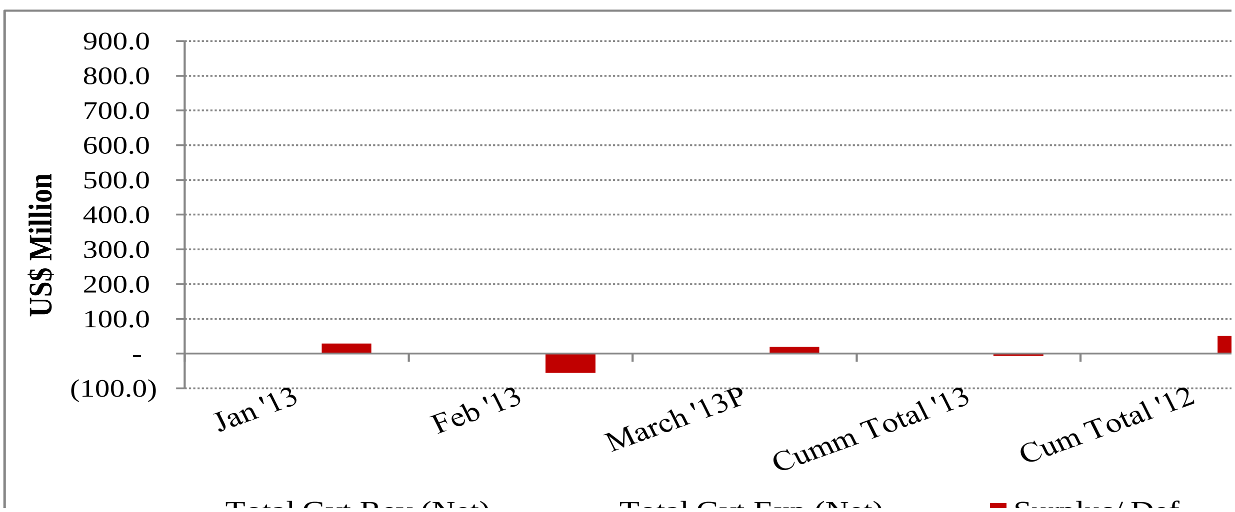
Going forward, there is need to resolve factors attributed to the slow-down in economic activity. Such factors include the liquidity constraints, power challenges, external debt and the growing trade deficit, among others.

2.2 Fiscal Developments

Revenues outturn

Cumulative revenues for the first quarter 2013 amounted to US$764.96 million, broken down as US$254.50 million, US$269.46 million and US$241 million, for January, February and March 2013, respectively (Figure 5). This is 0.80% lower than the cumulative revenue outturn for the same period in 2012, wherein US$771.13 million was raised (Figure 5). The March 2013 outturn is preliminary and accounts for receipts up to 28 March 2013. Hence, the first quarter 2013 outturn is expected to be marginally higher than that of 2012, reflecting improved performance in revenue collection by the Zimbabwe Revenue Authority (ZIMRA).

Figure 6: Fiscal Developments (US$ Million), January to February 2013



Source: Ministry of Finance[3]

Expenditure Outturn

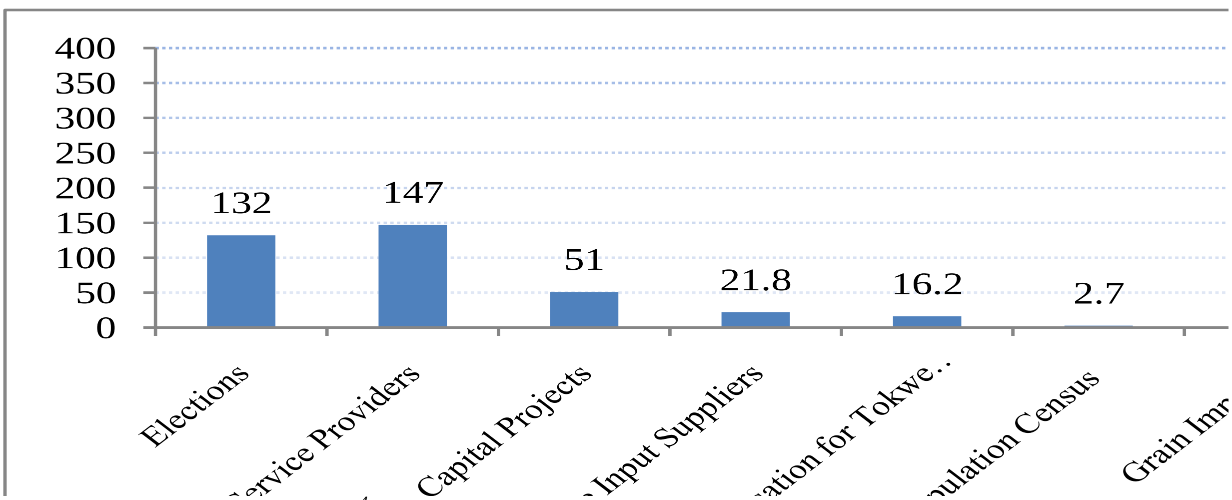
Cumulative total expenditures to March 2013 amounted to US$771.94 million. The expenditure mix remains highly consumptive with recurrent expenditures accounting for 92.65% of the cumulative total expenditures at US$715.2 million, whilst the capital budget accounted for the

[3] Figures for March are preliminary up to the 28th of March 2013.

remainder, at US$51.58 million. Employment costs continue to be the major drain on the fiscus and crowding out the public sector investment programme. Cumulative employment costs to March 2013 amounted to US$485.2 million, accounting for 62.84% of total expenditures and 67.84% of the cumulative recurrent budget. Against cumulative revenues of US$764.96 million, the Government incurred a cumulative primary deficit of US$6.977 million (Figure 5).

Whilst the primary deficit is small, the overall deficit is much higher, taking into account the fact that the Government continue to accumulate domestic arrears, which in essence represent the actual financial gap. As at 31 March 2013, the financing gap amounted to US$375.7 million, including accumulated domestic arrears of US$147 million, most of which were carried over from 2012. Furthermore, the Government has accumulated other domestic arrears including: outstanding payments for work on capital projects (US$51 million), agriculture input suppliers (US$21.8 million), compensation to families displaced by the Tokwe-Mukosi dam (US$16.2 million) and outstanding payments for the 2012 Population Census amounting to US$2.7 million (Figure 6). The arrears to service providers such as state enterprises and agriculture input suppliers need to be prioritised as they compromise the operations of the owed institutions, impacting on service quality and competitiveness.

Figure 7: Domestic Arrears & Other Unbudgeted Expenditures as at 31 March 2013 (US$ Million)



Source: Ministry of Finance, 2013[4]

In addition, further stress on the budget will emanate from the unbudgeted grain deficits, wherein, the Ministry of Finance estimates that an amount of US$5 million is required to complement private sector players in the importation of grain. Furthermore, it is estimated that an amount of US$132 million would be required to finance election related expenditures in 2013. In that regard, it would be important for Government to seek donor financing to avoid further fiscal spillages.

[4] State of the Economy Reports: January and March 2013 by the Minister of Finance, Hon. T. Biti.

The Government needs to avoid the growth inhibiting distortions caused by the accumulation of domestic arrears. This could be achieved through reinforcing the implementation of the cash budgeting framework while avoiding further accumulation of domestic arrears. Prudent economic management demands that government gradually built a buffer of fiscal surpluses. Sustained fiscal surpluses are key in building the country's international reserves, which are estimated to cover only 10 days of imports[5], against the threshold of at least three months of imports in reserve coverage.

2.3 Manufacturing Sector Developments

The manufacturing sector is not projected to undergo any significant transformation in 2013 if the projected growth rate is anything to go by. Under the 2013 National Budget Statement, government has projected that the manufacturing sector will grow by only 3% in 2013. Expected drivers for the growth include the implementation of the Industrial Development Policy, anticipated lines of credit as well as a favourable agriculture season. However, since the 2012-2013 agriculture season has already turned out to be unfavourable due to unreliable rainfall and challenges in accessing inputs by farmers, anticipated lines of credit should play the major role in the attainment of the projected growth.

If the anticipated lines of credit are to materialise and reach the intended beneficiaries, a lot still needs to be done. Lines of credit to the sector are expected to come from the Zimbabwe Economic Revival Trade Facility (ZETREF) II and the Distressed Industries and Marginalised Areas Fund (DIMAF) II, which are extensions of ZETREF I and DIMAF I in 2012. The African Export-Import Bank (Afreximbank), which funded ZETREF I, has agreed to avail another US$70 million towards ZETREF II. The Government is expected to also make available about US$30 million as its own contribution to ZETREF II, to make a total of US$100 million. Under DIMAF II, Government will be expected to avail US$10 million, which it had committed to in 2012 and defaulted. Old Mutual, which availed US$20 million in 2012, is expected to chip in with another US$10 million.

What is worrisome is that ZETREF I saw only 38.5% of the available balances being disbursed, with the balance failing to materialise. The same situation is equally true for DIMAF I; only 30.5% was disbursed out of the US$40 million that was expected. This brings the need to ensure that challenges faced in 2012 are addressed to the fore.

However, the 2013 Budget Statement does not appear to have done enough to ensure that this low disbursement rate will not recur. It does not identify potential solutions to the reasons behind this low uptake of lines of credit. Possible reasons for the low uptake include less motivation in

[5] IMF Country Report No. 12/279, Zimbabwe 2012 Article IV Consultation, September 2012.

the scheme by banks, which has not been adequately addressed in the statement. Some banks were also reported to be charging interest rates way above the agreed rates, which also saw many companies withdrawing their applications. This suggests that some banks consider the interest rate to be less profitable given the risky enterprises targeted; the same situation which could arise in 2013.

This calls for a more balanced policy prescription, taking into account the interest of both banks and the benefiting firms. Research into this issue would bring about critical policy inputs which might address the problem of low uptake of funds.

2.4 Mining Sector Developments

2.4.1 Mining Fees Reviewed Downwards

The Government has reviewed mining fees downwards in a move aimed at promoting investment in the sector, particularly for small scale miners. According to the Government Gazette of 8 March 2013, application fees for registering as an approved prospector have been reduced by 20% from US$5,000 to US$4,000 every five years. Fees for an ordinary prospecting licence have been reviewed downwards by 25% from US$1,000 to US$750 while levies for inspections of gold claims have been reduced from US$100 for every five hectares to US$100 for every ten hectares. Fees for base claims are now US$100 per five hectares from US$200. Registration fees for gold claims remained unchanged at US$200 while first and second inspections for gold claims were reviewed downwards by 50% from US$100 and US$200 per hectare to US$50 and US$100, respectively. Protection fees for grounds that have not been mined have been reduced by 90% from US$1000 to US$100 for two months. The fees for diamonds and platinum remained unchanged.

The fees are, however, still too high since there was a substantial increase of the mining fees in January 2012. Application fees for registration as an approved prospector were increased by 233% from US$1500 in December 2011 to US$5000 in January 2012. The current reduction of 20% is still above the recommended US$3000 by the Chamber of Mines of Zimbabwe (ZEPARU Mining Sector Study, 2012), hence it acts as a barrier to entry into the mining sector. To the mining companies already in operation, it reduces their profitability. Before the 25% reduction of the ordinary prospecting licence in March 2013, it was reviewed upwards by 566.7% from US$150 to US$1000 in January 2012. Again the new gazetted figure is above the recommended fee by the Chamber of Mines of Zimbabwe of US$450 (ZEPARU Mining Sector Study, 2012).

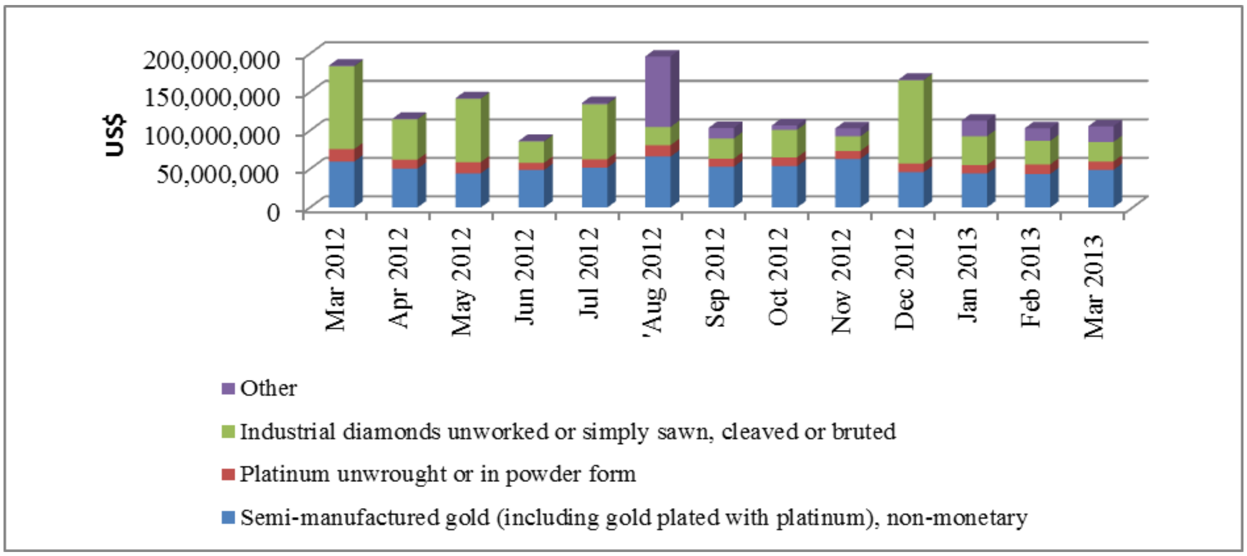
2.4.2 Zimbabwe Platinum Mines (ZIMPLATS)'s Objection to Compulsory Land Acquisition

On platinum, the ZIMPLATS lodged an objection against the Government's intention to compulsorily acquire 50% of the Impala Platinum subsidiary's mining claims. This was in response to the preliminary notice published in General Notice 123 of 2013 in the Zimbabwean Government Gazette of 1 March 2013 with the intention to acquire compulsorily 27948 hectares of land held by ZIMPLATS for the benefit of the public.

2.4.3 Mining Sector's Contribution to Exports

The mining sector contributed an average of 44.4% of total export earnings from March 2012 to March 2013 (Figure 7). Total mineral exports were valued at US1.66 billion for the same period to March 2013.

Figure 8: Contribution of Major Minerals to Total Mining Exports, Mar 2012-Mar 2013



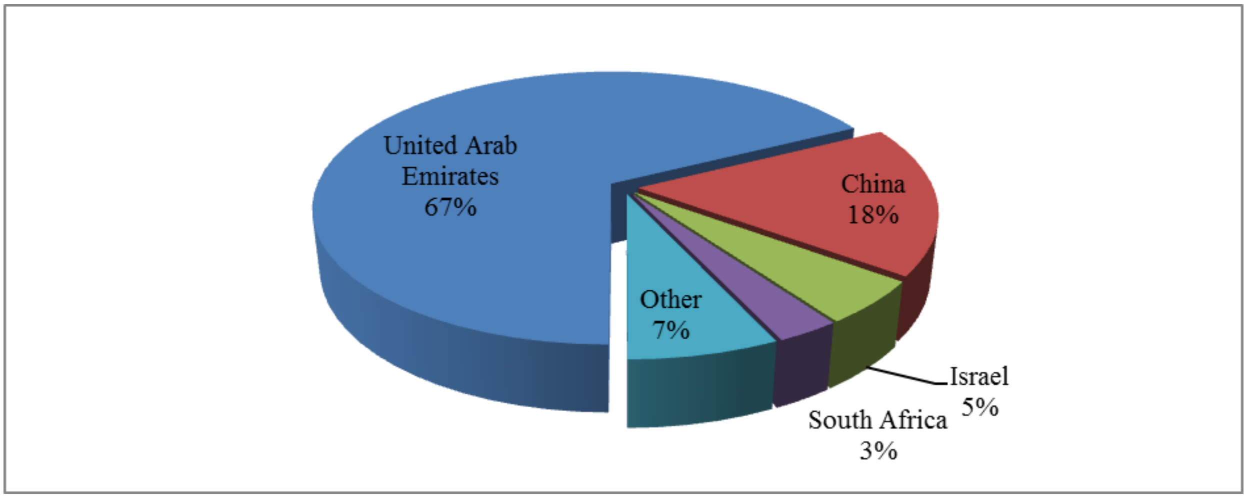
Source: Zimbabwe Statistics Agency (ZIMSTAT), 2013

Gold, diamonds and platinum accounted for the bulk of mineral exports (Figure 7). Industrial diamonds unworked or simply sawn, cleaved or bruted performed well in the first half of 2012 contributing the highest value of approximately US$108 million in December 2012. Semi-manufactured gold also performed well throughout the period contributing its highest value to exports in August 2012 of approximately US$66 million dollars. Gold exports increased by 9.8% from US$ 44,140,869 in January 2013 to US$ 48,965,099 in March 2013. However, platinum unwrought or in powder form and industrial diamond exports decreased by 2.3% and 4.7% from US$ 11,074,658 and US$ 37,399,459 to US$ 10,824,495 and US$ 25,437,674, respectively during the same period.

2.4.4 Mineral Export Destination

All the gold and platinum exports for the period March 2012 to March 2013 went to South Africa. However, most diamonds were exported to the United Arab Emirates (67%) followed by China which had 18% (Figure 8). The country also exported 5% and 3% of its industrial diamonds to Israel and South Africa, respectively, while other countries accounted for 7% of total mining exports.

Figure 9: Industrial Diamonds Unworked or Simply Sawn, Cleaved or Bruted Exports by Country



Source: ZIMSTAT, 2013

2.5 Agriculture Sector Developments

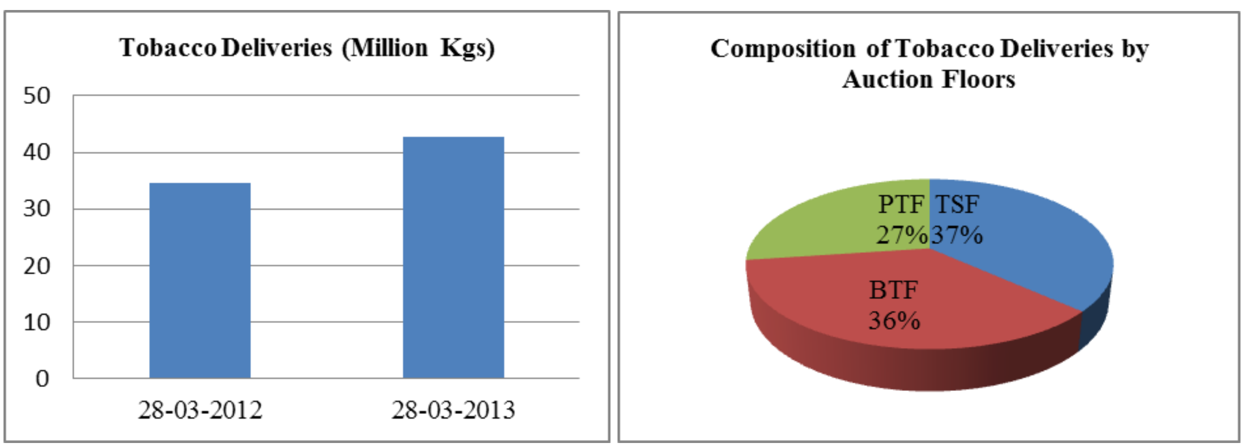
The area planted for major food crops in the 2012/13 is 1,498,455 hectrares as compared to 1,930,082 hectares planted last year. This is due to inadequate financial support in the agriculture sector as well as the late rains that affected the farmers' decisions. This is despite the fact that the Government had announced in the 2013 National Budget that the hectrage for maize alone would be 2,659,280. The current crop situation is mixed with good harvests expected in Mashonaland Central and West and parts of Mashonaland East provinces. However, in Matabeleland, parts of the Midlands, Masvingo and Manicaland provinces, there will be poor harvests owing to a number of reasons.

Perennial droughts in the drier parts of the country can be resolved by adequate investment in dam construction and irrigation schemes. Timely payment of farmers for crops and livestock products delivered to the market will assist farmers to prepare adequately for the subsequent farming season. Provisions of targeted and time framed farm subsidies can help boost production and lower production costs particularly for the poor and vulnerable population. These segments of the population will generally receive food hand outs when there is crop failure. There is also need to address the bottlenecks that inhibit productivity in the agriculture sector, thus making farming a viable business enterprise. This will enhance investment into the agricultural sector and encourage farmers to adopt innovative strategies that will help the farmer to respond quickly to market and climatic conditions. In particular climate change havs place new demands on today's farmers with regards to production technologies as well as water conserving production systems given the erratic rainfall patterns. These strategies may include among others, adoption of drip irrigation systems, research and development in drought resistant crops and conservation farming.

2.5.1 Tobacco Selling Season Begins

The 2013 tobacco selling season commenced in the second week of February 2013. At the end of the week ending 22 February tobacco seasonal sales had reached 4.7 million kilogrammes. By the week ending 28 March, sales had risen to 42,783,015 kg representing a 23.89% increase in the amount of tobacco that had been sold in the same period of 2012 (Figure 9). The growth in the sales is partly explained by increasing interest by farmers in tobacco farming as the registered tobacco farmers increased from 58,801 at the end of March 2012 to 82,833 by 28 March 2013. Moreso, the Government through the 2013 National Budget planned to increase land under tobacco production from 82,000 hectares (ha) in the last season to 85,000 ha. The projected delivery for the 2012-2013 tobacco selling season is 170 million kg.

Figure 10: Tobacco Deliveries and Composition of Deliveries by Auction Floors in 2013



Source: Tobacco Industry Marketing Board (TIMB)

At the close of the first quarter of 2013, 39% of the tobacco had been sold through the three auction sales, namely Tobacco Sales Floor (TSF), Boka Tobacco Floors (BTF) and Premier Tobacco Floor (PTF), whilst the rest (61%) was traded through the contract system. In terms of value, about US$61.8 million was sold through the auction floors whilst US$98.1 million was sold through contract farming arrangement. This implies that contract arrangement looked more lucrative as compared to the auction floors where the average price was US$3.77 as compared to

US$3.69. In both markets tobacco was traded at an average price of US$3.74/kg as compared to US$3.71/kg last year.

A total of 600,799 bales were bought in the first quarter, with 6.55% rejected as compared to only 5.74% during the same period last year. Some farmers had challenges in grading and packaging of tobacco as some bales were mouldy, overweight, underweight or had leaves from different grades mixed in one bale and would therefore be rejected. TIMB observed disparity in quality between the tobacco in the fields and the one brought to the auction floors and urged farmers to invest in efficient curing facilities to ensure high quality is maintained. High quality tobacco fetches better prices than that of low quality. Thus, responsible authorities i.e. the department of extension services in the Ministry of Agriculture, farmer organisation need to strengthen the capacity of new farmers to improve the curing and grading of their crop in order to improve the quality of their tobacco that is being delivered at the auction floors. Consumers generally prefer clean leaf of good maturity and quality from the upper stalk.

2.5.2 General Outlook of the 2012/2013 Cotton Season

The hectarage put under cotton production in the 2012/13 season is estimated to be 375,000 ha representing a 17% drop in cotton hectarage from the 450,000 ha in the 2011/12 season. According to the Cotton Ginners Association, the expected seed cotton production for the season is around 270,000 tonnes. The Cotton Ginners Association further revealed that significant boll splitting is expected to be realised at the end of May 2013 for farmers to start picking and baling the seed cotton owing to the late rains. In that regard, buying is expected to start between mid-May and June 2013.

Cotton farmers continue to face serious challenges that include low yields per hectare, high production costs as input costs are high as compared to the average cost in the region as well as erratic rainfall that compromises crop yield. Whilst about 98% of the cotton crop is produced under the contract farming arrangement, there continues to be challenges of side marketing, mistrust between ginners and farmers, price disputes at the time of marketing, inputs diversion to other crops and risk of the volatile international market prices. Farmers get the bulky of the inputs through the contract farming arrangement on credit although these are inadequate and often get to the farmers late. Most farmers feel that contract arrangement benefits the ginners more than them and it is therefore imperative for both parties to have a say on the contract agreement. It is also critical for the contractors to provide enough inputs to the farmers and work on a pricing model that does not lead to diversion of inputs to other crops. Furthermore, the Government and other stakeholders need to invest more on cotton production through research and development in order to come up with high yielding varieties. There is also need for more interactions between the extension officers and the cotton farmers where farmers will get more information on better farming methods.

2.6 Banking and Other Financial Sector Developments

According to the Reserve Bank of Zimbabwe (RBZ) Monetary Policy Statement (MPS), announced on the 31st of January 2013, the banking sector is safe and sound. Notwithstanding this, some vulnerabilities still exist in the banking sector in the form of limited and unevenly distributed liquidity and relatively inactive domestic money market.

2.6.1 Memorandum of Understanding (MOU) between the RBZ and Banks

On the 31st of January 2013, the RBZ and banking institutions signed a Memorandum of Understanding (MOU) on the agreed framework for bank charges and interest rates. The MOU is expected to result in reduced bank charges, lower lending rates and increased deposit rates. It is expected that the MOU would rationalise lending rates and bank charges, and ensure that deposits with financial institutions are rewarded meaningfully. This, in-turn, is expected to expand the deposit base, with possible improvement in the liquidity situation, as deposits are rewarded meaningfully and as bank charges are reduced. However, this needs to be complemented by other measures that improve depositor confidence in the formal banking system and resolve uncertainty surrounding the use of the multi-currency system beyond 2015.

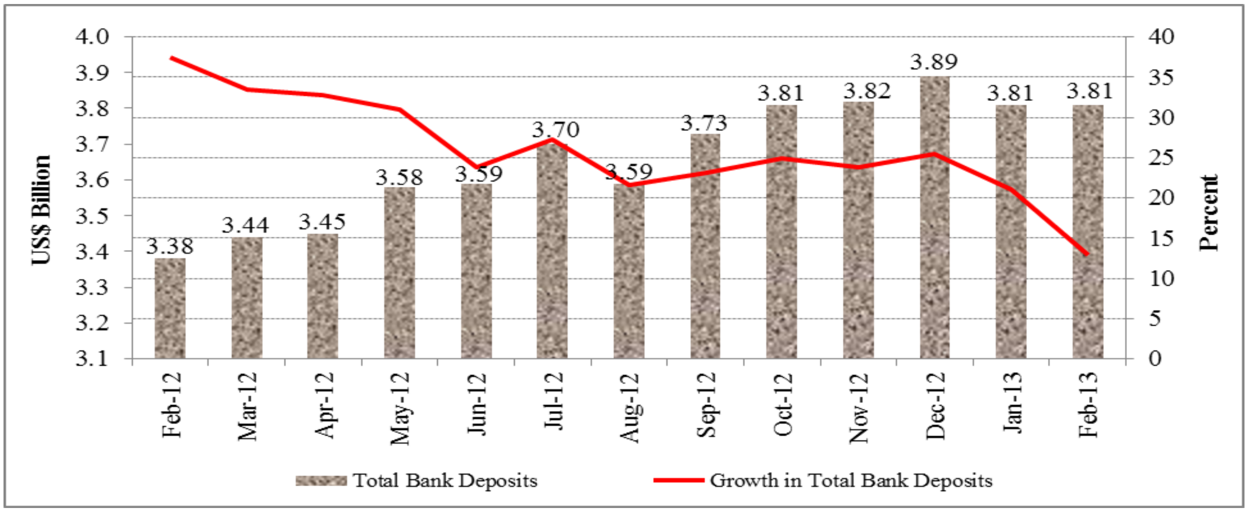
The reduction in lending rates is expected to reduce and make affordable the cost of borrowed funds for the productive sectors, which are crucial for a speedy recovery of the economy. The affordability of loanable funds, as a result of an expected decline in lending rates is likely to increase demand for such funds. This may potentially worsen the liquidity situation currently obtaining in the country. To avert the critical liquidity situation, there is need to improve exports and resolve the country’s adverse debt situation so as to open more lines of credit into the country.

Speaking at the Consumer Council of Zimbabwe (CCZ) symposium on the 26th of March 2013, the President of the Bankers Association of Zimbabwe (BAZ) pointed out that banks would lose about US$40 million of revenue due to the reduction in bank charges and lending rates, and the increase in deposit rates. However, historically, banks have not increased deposit and savings rates substantially.

2.6.2 Banking Sector Deposits

As at February 2013, total banking sector deposits, net of inter-bank deposits, stood at US$3.813 billion, while in January 2013, they stood at US$3.808 billion (Figure 10). This compares unfavourably to US$3.89 billion at the end of the 4th quarter of 2012.

Figure 11: Level & Growth of Total Banking Sector Deposits



Source: RBZ Monthly Economic Review, February 2013

Annual growth in the deposit base in February 2013 was 12.9%, the lowest growth rate recorded since the beginning of the multicurrency system in February 2009. The decline in the deposit base could be reflective of a slow-down in economic activity; low average incomes and low depositor confidence in the formal banking system.

As of February 2013, demand deposits dominated both savings and short-term deposits and long-term deposits as follows (Figure 11): demand deposits (51.9%), savings & short-term deposits (33.3%) and long-term deposits (14.8%).

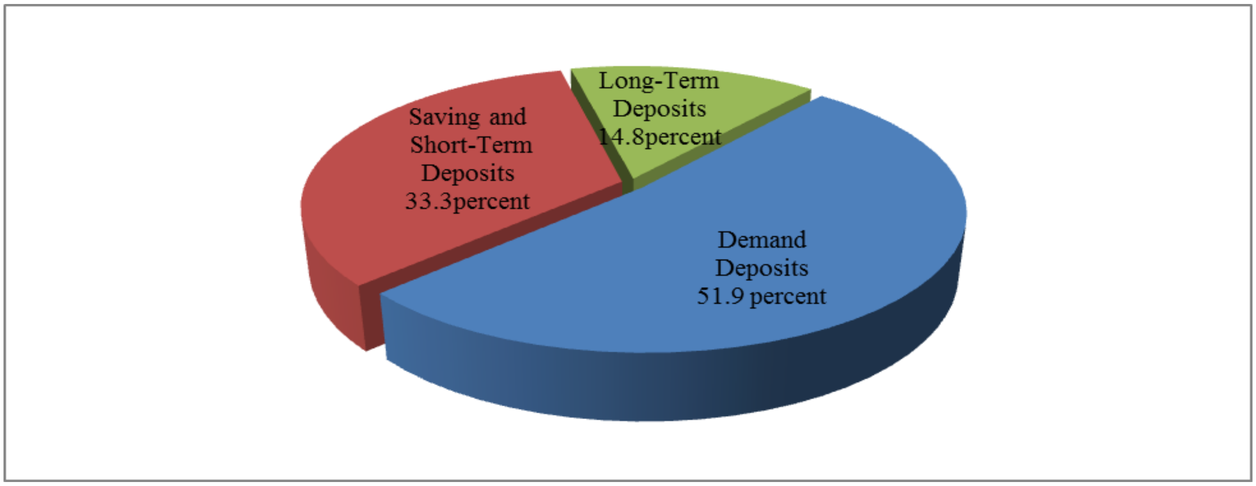
Table 1: Total Banking Sector Deposits (US$ Billion)

Type of Deposit	Dec-2012	Jan-2013	Feb-2013	Monthly Increase (Absolute) US$ Billion	Monthly Increase (Percent)
Demand Deposits	2.09	2.03	1.98	(0.05)	(2.69)
Saving & Short-Term Deposits	1.24	1.20	1.27	0.08	6.02
Long-Term Deposits	0.56	0.58	0.57	(0.02)	(3.18)
Total Deposits	**3.89**	**3.81**	**3.81**	**0.01**	**0.14**

Source: Reserve Bank of Zimbabwe Monthly Economic Review

In February 2013, the slight increase in total deposits of US$0.01 billion was attributed to the increase in saving & short-term deposits by 6.0% (Table 1). Demand and long-term deposits declined in February 2013 by 2.7% and 3.2%, respectively.

Figure 12: Composition of Total Banking Sector Deposits, February 2013

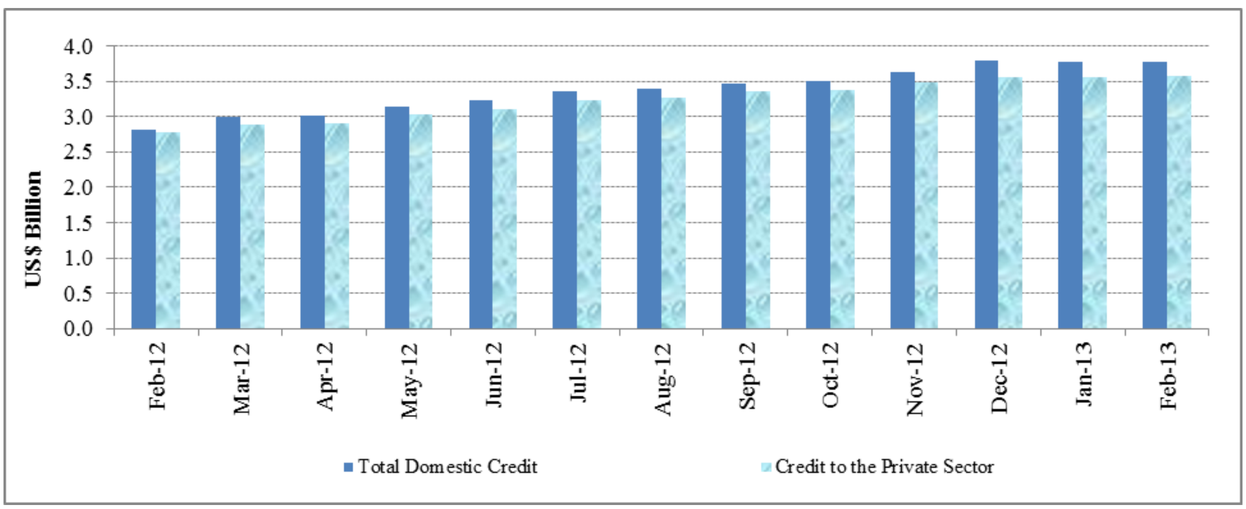


Source: RBZ Monthly Economic Review, February 2013

2.6.3 Bank Credit to the Private Sector

In January and February 2013, credit to the private sector stood at US$3.558 billion and US$3.575 billion, respectively (Figure 12). This compares favourably with the average credit to the private sector of US$3.474 in the 4th quarter of 2012. However, the proportion of private sector credit to domestic credit has declined from an average of 95.5% in the 4th quarter of 2012 to 94.2% and 94.5% in January and February 2013, respectively.

Figure 13: Bank Credit to the Private Sector

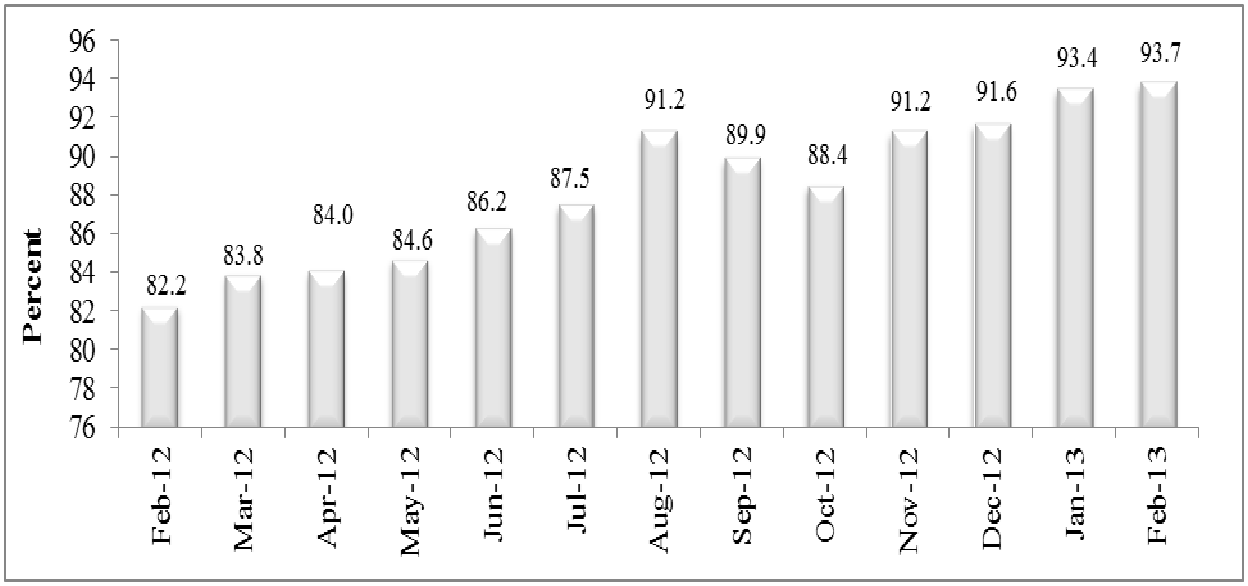


Source: RBZ Monthly Economic Review, February 2013

2.6.4 Bank Loan-to-Deposit Ratio (%)

In January and February 2013, the loan-to-deposit ratio stood at 93.4% and 93.7%, respectively (Figure 13). Compared with an average loan-to-deposit ratio of 90.4% in the 4th quarter of 2012, it shows that banks might be increasing risk exposure by lending more of their deposits, which are largely transitory in nature.

Figure 14: Loan-to-Deposit Ratio



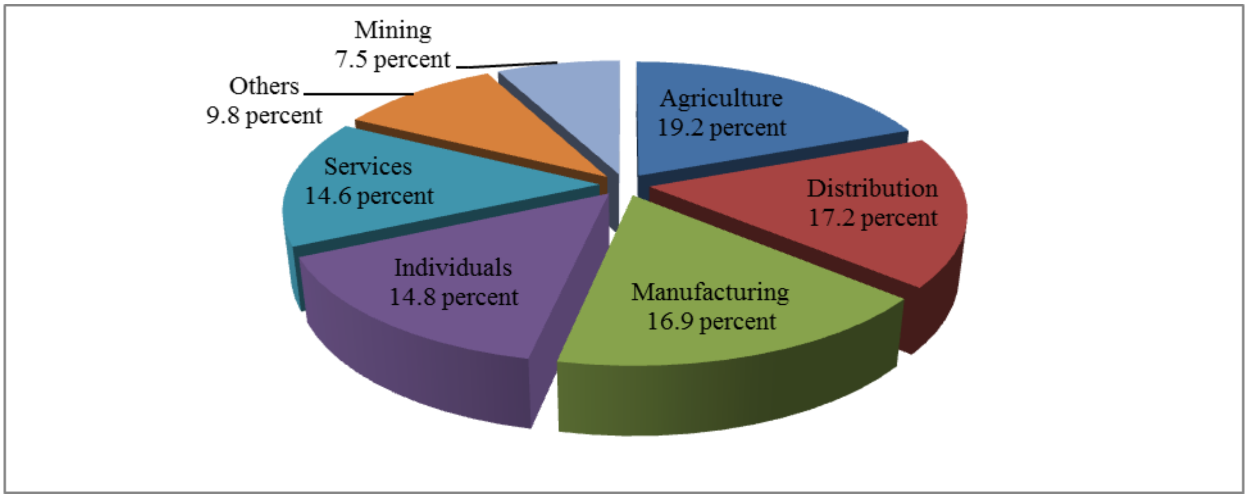
Source: RBZ

The deposit base needs to be expanded in order to sustain such high levels of lending. International best practise recommend 70-90% loan-to-deposit ratio.

2.6.5 Composition of Private Sector Credit

As at February 2013, loans and advances to the private sector were distributed as follows (Figure 14): Agriculture (19.2%); Distribution (17.2%); Manufacturing (16.9%); Individuals (14.8%); Services (14.6%); Mining (7.5%) and Others Sectors (9.8%). Bank outstanding loans to individuals have been increasing to the extent of closely trailing behind the key productive sectors such as agriculture and manufacturing. Most of these individual loans are used for purchasing consumer durables. In this regard, there is need for banks to be encouraged to channel more funds for productive purposes.

Figure 15: Sectoral Distribution of Commercial Bank Loans & Advances, February 2013



Source: RBZ Monthly Economic Review

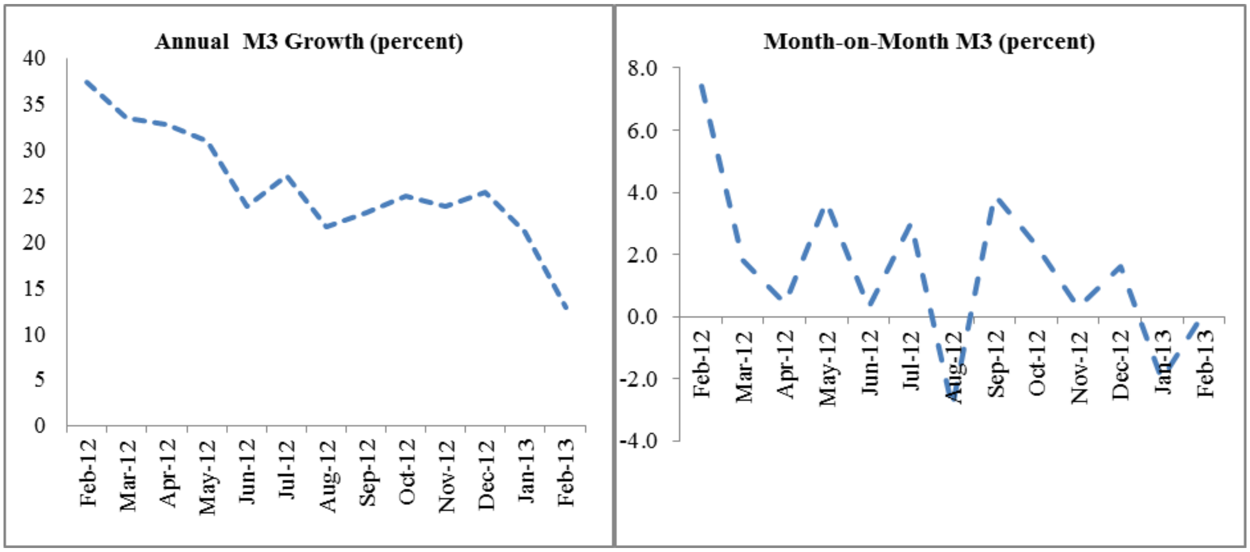
A cause for concern is that the bulk of the loans and advances accessed at banking institutions are mainly utilised for recurrent expenditures. As at February 2013, loans and advances were utilised as follows: recurrent expenditures 78.2%, capital expenditures 11.2% and purchase of durable household goods 10.6% This pattern of loan utilisation is attributed to the short-term nature of the deposit base and high credit and liquidity risks prevailing in the economy.

2.6.6 Money Supply Developments

Annual growth in broad money supply (M3), defined as total banking sector deposits (net of inter-bank deposits), declined from 37.4% in February 2012 to 12.9% in February 2013 (Figure 15). In January and February 2013, annual M3 growth was 21.1% and 12.9%, respectively. This compares unfavourably to the average annual M3 growth of 24.7% in the 4th quarter of 2012.

On a month-on-month basis, M3 growth increased from -2% in January 2013 to 0.14% in February 2013. Month-on-month M3 growth in January and February 2013 compares unfavourably with the average of 1.4% in recorded in the 4th quarter of 2012.

Figure 16: Broad Money Supply (M3) Growth



Source: RBZ Monthly Economic Review, February 2013

Apart from slowing economic growth, an adverse balance of payments (BOP) position, where import payments far outstrip export receipts is contributing to declining liquidity levels in the country.

2.6.7 Interest Rate Developments

In January and February 2013, weighted average commercial bank lending rates for individuals were 15.58% and 14.83%, respectively, while weighted average commercial lending rates for corporates were 10.81% and 10.53%, respectively, over the same period (Table 2). The softening of the lending rates is partly attributed to the signing of the MOU, which took effect on the 1st of February 2013, between banks and RBZ. Similarly, weighted average merchant bank lending rates for both individuals and corporates softened from 17.96% in January 2013 to 17.93% in February 2013 for individuals, and from 14.42% to 14.36% for corporates over the same period.

Table 2: Interest Rate Levels (Percent per Annum), March 2012-February 2013

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		
Mar-12	8.00-30.00	16.04	12.53	14.00-35.00	18.17	13.26	5-20.00	0.01-12.00
Apr-12	8.00-30.00	15.00	13.06	13.00-25.00	18.37	16.36	5-20.00	0.00-12.00
May-12	6.00-30.00	14.98	11.86	15.00-30.00	15.78	14.47	5.20.00	0.00-12.00
Jun-12	6.00-35.00	13.81	11.58	15.00-30.00	17.86	14.04	5-20.00	0.00-12.00
Jul-12	6.00-35.00	14.32	10.88	15.00-30.00	17.92	13.93	5-20.00	0.00-12.00
Aug-12	6.00-35.00	15.65	10.74	15.00-30.00	17.94	13.95	5-20.00	0.00-12.00
Sep-12	6.00-35.00	13.25	11.14	15.00-30.00	17.98	13.92	5-20.00	0.00-12.00
Oct-12	6.00-35.00	13.35	11.03	13.00-30.00	17.98	13.95	5-20.00	0.00-12.00
Nov-12	6.00-35.00	15.25	10.88	13.00-25.00	17.91	14.42	4-20.00	0.15-8.00
Dec-12	10.00-35.00	15.08	10.40	15.00-25.00	17.93	14.43	4-20.00	0.15-8.00
Jan-13	10.00-35.00	15.58	10.81	13.00-25.00	17.96	14.42	4-20.00	0.15-8.00
Feb-13	10.00-35.00	14.83	10.53	13.00-25.00	17.93	14.36	4-20.00	0.15-8.00
Average		**14.63**	**11.52**		**17.71**	**14.26**		

Source: RBZ Monthly Economic Review, February 2013

In February 2013, the range of commercial bank 3-month and savings deposit rates remained at the November 2012 levels of 4-20.00% and 0.15-8.00%, respectively. Notable is that some banks are rewarding low deposit rates of 0.15% per annum for savings deposits. With such deposit rates, it would be difficult to expand deposit base for banks. In this respect, there is still need to encourage some banks to reward depositors and savers better.

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

Month	ZETSS	Cheque Values	Card Values	Mobile & Internet
Jan-2012	2,439.7	5.3	137.2	60.8
Feb-2012	2,920.1	6.1	137.1	77.2
Mar-2012	3,242.8	6.8	156.4	104.1
Q1: 2012	**2, 867.5**	**6.1**	**143.6**	**80.7**
Apr-2012	2,948.5	5.5	160.5	68.6
May-2012	3,237.4	5.0	189.6	82.0
June-2012	3,407.3	6.5	177.7	93.5
Q2: 2012	**3,197.7**	**5.7**	**175.9**	**81.4**
July-2012	3321.0	6.7	169.1	135.6
Aug-2012	3417.3	6.1	218.4	98.3
Sep-2012	3043.2	5.6	235.5	149.2
Q3: 2012	**3,260.5**	**6.1**	**207.7**	**127.7**
Oct-2012	3630.7	6.6	232.9	196.9
Nov-2012	3526.0	5.9	240.8	197.3
Dec-2012	3,584.7	5.0	308.9	220.3
Q4: 2012	**3,580.5**	**5.8**	**260.9**	**204.8**
Jan-2013	3,563.8	5.2	254.4	205.2
Feb-2013	2,968.0	5.5	260.5	199.3

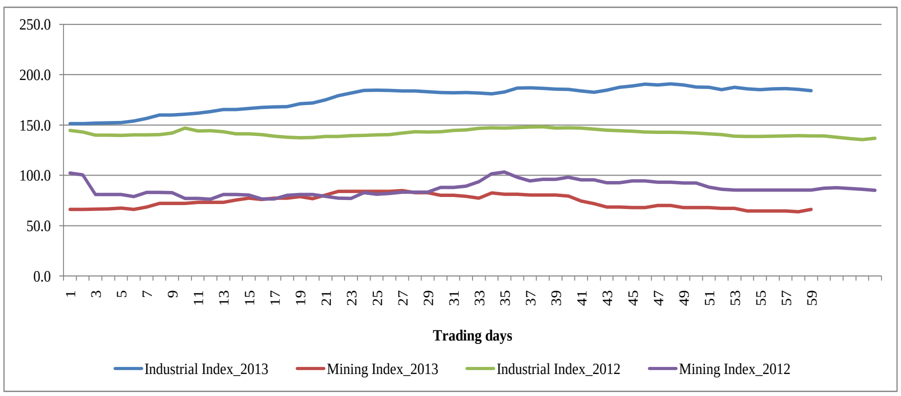
Source: RBZ Monthly Economic Review, February 2013

In January and February 2013, transactions values processed through the Zimbabwe Electronic Transfer Settlement System (ZETSS), cheques and cards declined when compared with the respective averages recorded in the 4th quarter of 2012 (Table 3). This decline in transaction values recorded in January and February 2013 is reflective of slowing down of economic activity. However, a comparison of January and February 2013 to January and February 2012 shows that there is growth in ZETSS, cards and mobile and internet transaction values, with massive growth of more than 80% in cards and mobile and internet transactions. Thus, the decline in January and February 2013 ZETSS, cards and mobile and internet transactions against average 4th quarter values could be attributed to seasonality.

2.7 Stock Market Developments

In the first quarter of 2013 the industrial index performed well above its performance in the same period last year, opening at 151.30 and rising to 184.08 at the end of March 2013. This improved performance can be attributed to recovery in some sectors of the economy which have seen some counters like CBZ, Fidelity life, Nicoz Diamond and Dairiboard Zimbabwe Limited posting profits and declaring dividends.

Figure 17: Stock Market Performance First Quarter of 2012 and 2013



Source: Zimbabwe Stock Exchange

To the contrary, the mining index trended low in the first quarter of 2013 with the index averaging 74.02 as compared to an average of 86.82 in the same period in 2012 (Figure 16). This may be due to the uncertainty over the full implementation of the Indigenisation and Economic Empowerment policy in the mining sector. In view of the impending general elections to be held later this year, investors in the mining sector have adopted a wait and see attitude with regards to their investment decisions.

Table 2: ZSE Summary Statistics for the First Quarter of 2012 and 2013

	Q1_2012	Q1_2013	Percentage Change
Turnover Value (USD)	118,972,686.51	120,442,315.20	1.24
Turnover Volume	798,899,035.00	561,066,876.00	(29.77)
Foreign Bought (USD)	54,645,184.90	75,621,537.79	38.39
Foreign Sold (USD)	53,890,403.75	42,841,655.66	(20.50)
Foreign No of Shares Bought	219,909,403.00	270,122,115.00	22.83
Foreign No of Shares Sold	121,429,701.00	190,221,053.00	56.65
Market Capitalization (USD)	3,458,055,450.00	4,726,336,602.00	36.68

Source: Zimbabwe Stock Exchange

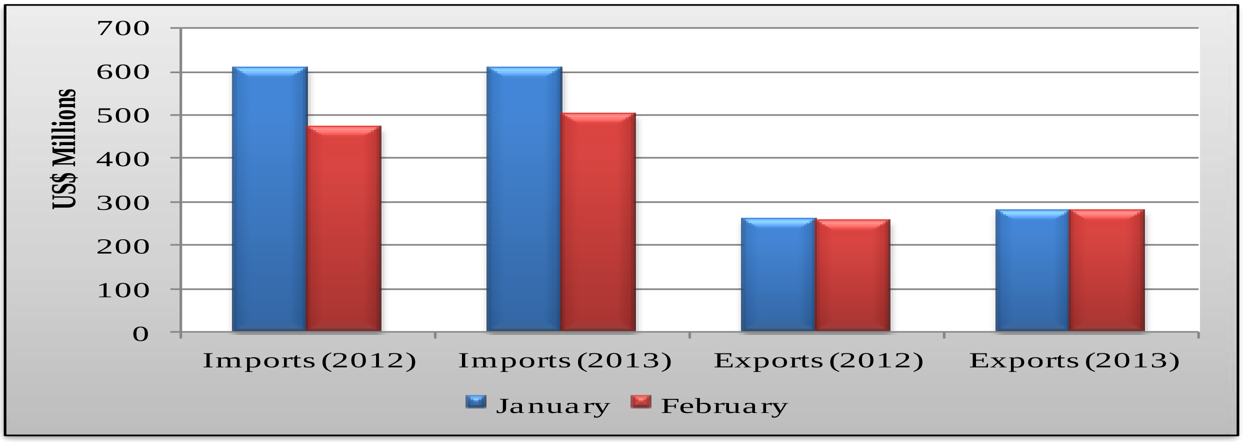
Table 4 shows that, foreign participation in the stock market increased, highlighting renewed confidence by foreign investors in the performance of the local economy in the first quarter of 2013 as compared to the first quarter of 2012. This is despite the pending general elections to be held later this year which has had an impact on the flow of investments into the country in the past. Thus, the number of shares bought and sold by foreigners grew by 22.83% and 56.65%, respectively, whilst the value of shares bought increased by 38.39% and the value of shares sold declined by 20.50% in the first quarter of 2013 compared to the same period in 2012.

Of note, was the increase in the market capitalisation by 36.68% from US$3.458 billion in the first quarter of 2012 to US$ 4.726 billion in the first quarter of 2013.This increase signifies an increase in the size and activities of the stock market. Meanwhile, turnover value grew by 1.24% whilst the turnover volume declined by 29.77%. However, the bullish sentiment on the ZSE cannot be exaggerated as it is driven by a few active counters.

2.8 External Sector Developments

The first two months in the year 2013 have not revealed any changes with respect to the trend observed in 2011 and 2012 where exports are not growing at a rate that is fast enough to match imports. In January 2013, imports were about US$606 million (Figure 17), which is not significantly different from their value in January 2012. A slightly different picture emerges however for February, as imports stood at about US$500 million in February 2013, which is actually an increase of about 6.3% compared to February 2012. An increasing trend for imports would impact negatively on the BOP, which continues to be characterized by a deficit. The high imports in the country generally points to two issues. Firstly, the economy is failing to produce enough products that are internationally competitive resulting in the preference of imported products over locally produced ones. Secondly, production volumes by the local industries are too low to match demand, resulting in imports being used to fill in the gap.

Figure 18: Imports and Exports, January and February 2012 and 2013



Source: ZIMSTAT

A look at the performance of exports reveals that although there is a positive trend, the trend is not big enough for an economy with such high levels of imports. In January 2013, exports were about US$280 million, an increase of 8.5% compared to January 2012. This same trend is also apparent in February 2013, where exports increased by about 9.1% compared to February 2012. These growth rates could be high enough for a normal economy, but are hardly significant in the face of a high BOP deficit that characterise the Zimbabwe economy.

The BOP deficit is largely driven by the mismatch between exports and imports (trade deficit) as capital inflows and remittances from the diaspora are generally favourable. The trade deficit in February 2013 stood at about US$221 million, which is not significantly different from the value of US$215 million recorded in February 2012. Measures to boost exports, should thus continue to be prioritized, especially given that the trade deficit is being financed largely through further accumulation of arrears.

The trade deficit can be reduced with a general improvement in the productive capacity of local industries as well as improvements in the agriculture sector to reduce importation of agriculture commodities. Since the importation of products which are not locally available such as fuel and lubricants constituted only 19.6% of total imports in 2012, the need for local industry revival becomes paramount.

2.9 Tourism Developments

In line with the Trilateral Host agreement between United Nations World Tourism Organisation (UNWTO), Zimbabwe and Zambia signed in May 2012, the third inspection visit was made in the first quarter of 2013. The UNWTO inspectors made inspection visits of the facilities of both Livingstone and Victoria Falls in January 2013 to assess the state of preparedness of hosting the 20th Session of the UNWTO General Assembly. The first two inspections were held in February and August 2012. Upon completion of the inspection visits, the UNWTO inspectorate team expressed satisfaction with the state of preparedness and indicated that everything was on course. The inspection team noted the following positive developments amongst others; state of Airports for the two host countries - both Victoria Falls and Livingstone International Airports, which are being renovated; preparations for accommodation facilities in both countries and the continued dialogue among the two countries through the Zambia/Zimbabwe Joint Steering Committee that meets monthly for the preparations.

A tourism delegation from Zimbabwe attended trilateral and bilateral meetings at the UNWTO headquarters in Madrid Spain from 29 January to 5 February 2013 to discuss the issues around the UNWTO General Assembly to be cohosted by Zambia and Zimbabwe. They also participated in the Firtur and Investour show case where Zambia and Zimbabwe jointly exhibited their tourism markets. During the meeting, it was highlighted that the Zambian Government committed US$20 million towards the UNWTO General Assembly, while the Zimbabwean Ministry of Tourism and Hospitality Industry is yet to receive US$6 million allocations from the national budget. The UNWTO directorate expressed their interest to help Zimbabwe towards poverty reduction projects through sustainable tourism and finalization of the Tourism Master Plan which is set to be launched in August 2013. The Government of Zimbabwe delegation also opened negotiations around a Memorandum of Understanding with the Ministry of Tourism in Spain for future collaboration.

Meanwhile a study which was completed by ZEPARU in the first quarter of 2013 has identified some of the challenges currently bedeviling the Tourism sector in the country. The areas that have been identified as priority areas requiring immediate attention for sustainable growth of the tourism sector include: lack of internal airline connectivity, lack of aggressive marketing of the Zimbabwean destination, lack of institutional coordination, limited skills and experience, lack of domestic tourism promotion and an unfriendly visa policy. To position the tourism sector on a sustainable growth path the study recommended among others, the establishment of a tourism revolving fund drawing on lessons from Mauritius, reviewing internal airline connections and access to all tourist resorts, reforming the visa system, undertaking short term training programmes to address skills shortage and improvement of domestic and international marketing.

2.10 Trade Relations Developments

The Tripartite Trade Negotiation Forum (TTNF) held its 6th Meeting on 25-26 February 2013, in Livingstone, Zambia. The main objective was among other issues to consider the TTNF Chairman's Progress report on the TFTA negotiations. The meeting noted that the TFTA negotiation process is way behind schedule as substantive negotiations are yet to commence. The initial timeline for the negotiations was June 2012 but this has since been missed. The draft FTA and its annexes that had been prepared as the starting points for the negotiations are yet to be reviewed and negotiated.

According to the negotiations schedule, negotiations will be done in difference phases, that is, the Preparatory Phase, Phase 1 and Phase 2. The Preparatory Phase was intended to enhance transparency among all countries through the exchange of trade and tariff data, trade regulations and other trade measures and instruments as well as to enhance the understanding and appreciation of trade regimes prevailing in each of the three Regional Economic Communities (RECs). During the preparatory phase, member States were also expected to prepare national negotiating positions for core FTA items.

It was agreed that Phase I of negotiations will focus on Trade in Goods and Movement of Business Persons although the latter will be negotiated through a separate track in a committee to be established by the Tripartite Sectoral Ministerial Committee. Phase II of negotiations will cover the built-in agenda in services and trade-related areas, and will commence after the conclusion of Phase I.

Key Outstanding Issues on Modalities for Tariff Negotiations

The TTNF identified thresholds for substantial liberalization, time frames for tariff liberalization and treatment of sensitive and exclusion lists as critical issues still outstanding on the preparations for the negotiations. At the TTNF meeting, Member States expressed differing views with respect to thresholds on substantial liberalization. Some Member States recognized the importance of raising the level of ambition such that the ultimate destination for tariff liberalization in the TFTA should be about 100%, while recognizing that few sensitive products and other specificities that apply to some Member States may be considered. Some member States felt that a distinction should be made between TFTA related tariff liberalization and the outstanding tariff phase down commitments under the REC FTAs. The threshold under discussion should only apply to the TFTA commitments. Others suggested minimum threshold levels of substantial liberalization of at least 90%, 95% or about 100% of tariff lines. Yet other Member States suggested an initial minimum threshold of 85% of tariff lines for those countries that do not have FTA arrangements with any Tripartite Member States on a reciprocal basis. Member States also had differing views with respect to time frame for tariff liberalization and this varied from 3 years, 5 years, or up to 8 years. The meeting ended without reaching consensus on whether to have sensitive or exclusion lists. Member States expressed divergent views regarding the extent of exclusions that could be allowed beyond the general exceptions or restrictions permitted under the REC trading arrangements and the World Trade Organisations (WTO) provisions.

Reasons for Lack of Progress in the Negotiation Process

Various reasons were cited in explaining why there was lack of progress in the negotiation process towards the formation of the TFTA. Partly this had to do with lengthy processes in resolving preparatory activities such as exchange of trade data and trade instruments; and reaching agreement on the modalities for tariff liberalisation. Zambia felt that the application of the Principles for negotiating the TFTA adopted by the Summit such as that of consensus have contributed to the delays in the negotiations. Lack of consistency in participation in the negotiations by experts from Member States which leads to inadequate institutional memory; inadequate resources to finance effective participation in the negotiations; documentation and logistical challenges; and a heavy trade negotiation agenda at continental and regional levels which are competing with time for TFTA negotiations also explained why the three regional economic communities missed the deadlines.

2.0 POLITICAL AND GOVERNANCE ISSUES

3.1 The Constitution Making Process

Zimbabwe, on the 16th of March 2013 held a Constitutional Referendum, wherein, 3 079 966 voters, accounting for 93% of the votes cast, endorsed the draft Charter, whilst 179 489 (5%) voted against the draft, with the remaining 2% being spoilt votes. This paved the way for the gazetting of the Constitutional Bill on the 28th of March 2013. In line with the current Constitution, the Bill will be presented before Parliament, not less than 30 days after the date of its gazette. In that regard, the Constitutional Bill is tentatively scheduled to be tabled for debate in Parliament on the 7th of May 2013, when Parliament is set to resume sitting. Once, the two-thirds majority required to pass the Bill is obtained from the House of Assembly and the Senate; the Bill will be placed before the President to assent it into law.

It is largely expected that the Constitutional Bill will sail through both Houses without any amendments, since it is a product of a Parliamentary process through the Constitutional Parliamentary Select Committee (COPAC) and that the referendum endorsed it. Furthermore, it is important to note that a Constitutional Bill is not required to go through the Parliamentary Legal Committee for scrutiny as it is unnecessary to test a Bill for consistency with the present Constitution, which it seeks to repeal. This is, thus, expected to significantly shorten the Parliamentary approval process. In that regard, the Government is expected to start aligning various laws with the new Constitution, particularly, legislation relating to the conduct of elections, such as the Local Government and Electoral Laws, to ensure that they are in sync with the new Constitution, in preparation for the holding of the harmonised elections.

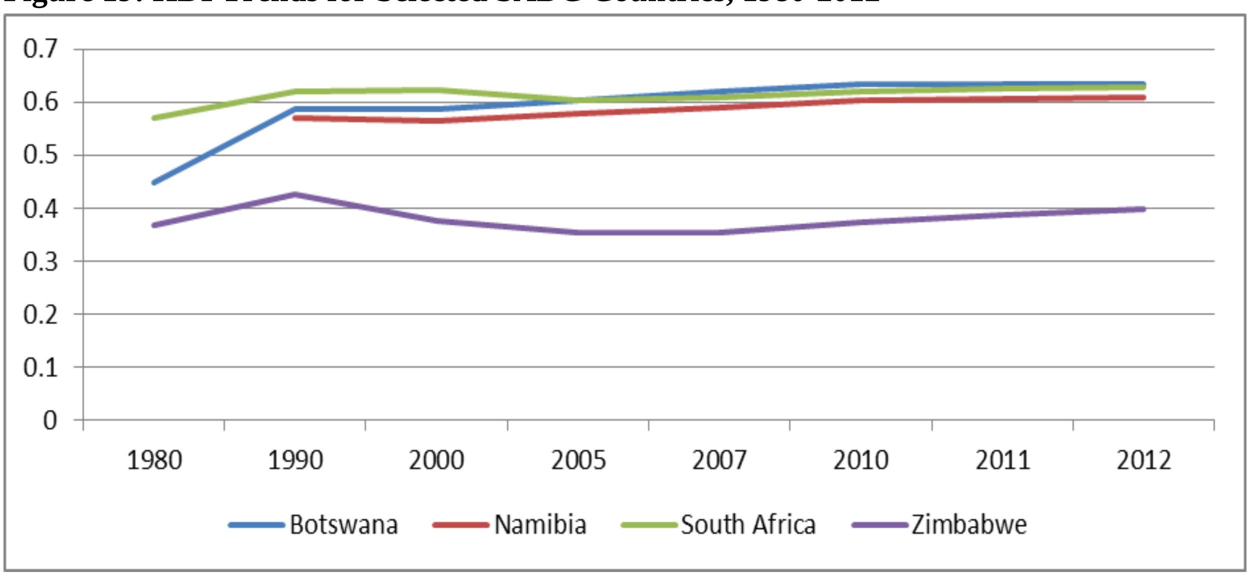
4.0 COMMENTARY ON TOPICAL ISSUES

4.1 Zimbabwe's Human Development Index (HDI) Slightly Improving

According to the Human Development Report 2013, Zimbabwe is ranked 172 out of 187 countries, up from 173 in 2011. HDI is a composite measure of indicators along three dimensions: life expectancy, educational attainment and command over the resources needed for a decent living. The country's HDI is in the low human development category, with a value of 0.397 for 2012. Between 1980 and 2012, Zimbabwe's HDI value increased by 8% from 0.367 to 0.397 (Figure 18).

The improvement of the HDI index is anchored by the improvement in the health index, which increased by 35.6% between 2005 and 2012. The education index jumped by 61.4% from 0.306 in 1980 to 0.494 in 1990. It increased further by 10.5% from 0.494 to 0.546 between 1990 and 2005. Thereafter it increased slightly by 3.7% from 0.546 in 2005 to 0.566 in 2011. The gross national income (GNI) per capita also increased by 13.7% between 2010 and 2012. However, Zimbabwe's 2012 HDI of 0.397 is below the average of 0.466 for countries in the low human development group and below the average of 0.475 for countries in SSA. A comparison with selected SADC countries reveals that Zimbabwe is still lagging behind. Between 2010 and 2012, South Africa, Botswana and Namibia's HDI indices were slightly above 0.6 whereas that of Zimbabwe was below 0.4 during the same period (Figure 18). The indices for Zimbabwe were also below the 1990 value of 0.427.

Figure 19: HDI Trends for Selected SADC Countries, 1980-2012



Source: http://hdrstats.undp.org/en/tables/

This reveals that the country has to continue improving especially on the health and GNI per capita indices since these indices were far much above that of education in the first decade of independence, between 1980 and 1990. The education system can also continue to be improved although it is regarded as one of the best in Africa.

5.0 CONCLUSION

While there is both price and currency stability in the economy, growing the economy is still facing challenges. There is still need for more confidence building in the formal banking system. It is expected that the MOU that was signed between the RBZ and the banking institutions will go a long way in reducing average lending rates in the economy, which is critical for the recovery of the economy. The growing trade deficit and the huge external debt remain challenges to be resolved. Pending national elections continue to generate investor uncertainty about the future business environmental conditions in Zimbabwe.