ZIMBABWE ECONOMIC POLICY ANALYSIS AND RESEARCH UNIT

THE ZEPARU ECONOMIC BAROMETER

Volume 7

January 2013

55 Mull Road
Belvedere
Harare
Zimbabwe
Tel +263 4 778423
Fax: +263 4 778423
E-mail: *administration@zeparu.co.zw*
Web: *www.zeparu.co.zw*

Disclaimer
This document is for information purposes only. ZEPARU is not liable for any consequences of implementation and failure thereof that may arise from the policy recommendations contained herein. The interpretation, and conclusions expressed herein do not necessarily reflect the views of any institutions or organizations which ZEPARU is affiliated to. Although all effort has been made to ensure accuracy of data and interpretations, ZEPARU does not guarantee the accuracy of the data included in this document. For information which may facilitate investment decision, an offer to sell or as a solicitation of an offer to buy the products mentioned in it, no guarantee is assured that any returns will be achieved. Users of the views contained herein are hereby advised that ZEPARU, takes no responsibility for improper, inaccurate or other erroneous assumptions and interpretation of the said statistics, to the extent such information is used by the user hereof.

Citation

This publication is cited as “ZEPARU (2013), The ZEPARU Economic Barometer, Volume 7, Page Number”

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

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

ABBREVIATIONS

ACP	African, Caribbean and Pacific
Agritex	Agriculture and Extension Services
BOT	Build Operate and Transfer
CLI	Composite Leading Economic Indicator Index
COMESA	Common Market for East and Southern Africa
CZI	Confederation of Zimbabwe Industries
EIA	Energy Information Administration
EU	European Union
FoB	Free on Board
GDP	Gross Domestic Product
ha	Hectare
IMF	International Monetary Fund
KPCS	Kimberly Process Certification Scheme
M3	Broad Money Supply in Zimbabwe
MENA	Middle East and North Africa
MoF	Ministry of Finance
MSMES	Micro Small and Medium Enterprises
MT	Metric Tones
NIEEB	National Indigenisation and Economic Empowerment
NIV	National Vendor Finance
NTB	Non-Tariff Barriers
PAYE	Pay-as You Earn
PPC	Pretoria Portland Cement
Q1	First Quarter
Q2	Second Quarter
Q3	Third Quarter
Q4	Fourth Quarter
RBZ	Reserve Bank of Zimbabwe
SADC	Southern African Development Community
SPS	Sanitary and Phytosanitory
TB	Treasury Bills
TIMB	Tobacco Industry and Marketing Board
US	United States
ZETSS	Zimbabwe Electronic Transfer and Settlement System
ZIMSTAT	Zimbabwe Statistics Agency
ZRA	Zambezi River 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.

Research Team: Gibson Chigumira; Sehliselo Mpofu; Erinah Chipumho; Sanderson Abel; Cornelius Dube; Jecob Nyamadzawo; Tawanda Chinembiri; Evangelista Mudzonga; Gamuchirai Chiwunze; Everisto Mugocha and Wellington Matsika.

Type-setting and Printing:

Cover Design:

Executive Summary

The World Economy continued to exhibit signs of non-recovery since the onset of the global financial crisis in 2008. Advanced economies continue to experience low growth on the back of significant legacy effects of the financial crises while economic growth in emerging and developing economies slowed down to an estimated 5.1 percent in 2012, from 5.9 percent in 2011. This was largely due to weak external demand and policy actions in China to contain inflation. While there was a general slowdown in most developing and emerging economies, Sub-Saharan Africa continued to register robust economic growth estimated 4.6 percent in 2012. The growth in Sub-Saharan Africa was mostly driven by robust domestic demand, high commodity prices, increased export volumes and steady remittance flows.

International commodity prices slackened mostly in the fourth quarter compared to the third quarter. The poor performance of gold and platinum during the last quarter revolved around uncertainty in the economic and political climate in Spain, Greece and Italy. For example, riots in Greece against austerity measures and industrial actions that were experienced at South African Mines during the fourth quarter affected the precious metals prices. Discussions around the fiscal cliff in the United States also weighed in to affect the prices of the precious metals in the fourth quarter of 2012.

The SADC regional inflation rates during the fourth quarter of 2012 performed favourable better than those prevailing in developed countries such as the United State of America. Zimbabwe continued to fare very well in comparison with the other regional counterparts where Malawi has the highest inflation rate of 33.3 percent while Mozambique with the lowest of 1.8 percent as of November 2012.

Fiscal revenue underperformed in 2012 and consequently Government incurred a fiscal deficit of US$111.89 million, which was mainly financed by savings from the previous years. Cumulatively, the Government has managed to create fiscal savings of US$269 million since 2009. The current lack of fiscal space has also been compounded by lack of full engagement of the international development partners, mainly due to the arrears situation. In this regard Government needs to fast-track its arrears clearance and reengagement programme to open channels of international development assistance inflows, to supplement domestic revenues.

In the mining industry, Anglo Platinum's (Amplats) and Unki Mine reached an agreement with the National Indigenisation and Economic Empowerment Board (NIEEB) to cede 51 percent of its shareholding to locals. Mimosa Platinum also revealed its plans to comply with the country's indigenisation laws by ceding 51 percent shareholding with an estimated value of $556 million to locals.

While the bank sector was declared by the Central Bank to be sound and safe signs of fragility in some banking institutions remained. For example, the Royal Bank which was placed under curatorship in July 2012 faces liquidation, following the bank's failure to attract new investors and to improve on the weaknesses that led to its closure. Attempts by Government and RBZ to re-introduce Treasury Bills (TBs) hit a snag as it failed to garner sufficient support from the players in the banking sector in spite of their request for quality paper in the market. Only one auction that was conducted on the 26th of October 2012 was partially successful.

The Zimbabwe Statistical Agency (ZIMSTAT) released the 2012 Census preliminary report which showed that Zimbabwe's population stood at 12.97 million people. The average household size was estimated to 4.2 persons per household. The report also showed that the average annual intercensal (2002 to 2012) growth rate was 1.1 percent, whilst the overall sex ratio was 93 males per every 100 females.

1.0 GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

1.1 World Economic Outlook Update

The World Economy continues to struggle four years after the onset of the global financial crisis in 2008. Advanced economies continue to experience low growth on the back of significant legacy effects of the financial crises. However, prospects for the developing world remain solid (albeit between 1 and 2 percentage points slower than in the pre-crisis period), World Bank Global Economic Prospects (2013). Global output is estimated to have grown by 2.3 percent in 2012 and is expected to remain broadly unchanged at 2.4 percent in 2013, before gradually strengthening to 3.1 percent in 2014 and 3.3 percent in 2015, (Table 1). In the United States, the economy is estimated to have grown by 2.2 percent in 2012 up from the 1.8 percent recorded in 2011. However, the US economy is projected to decelerate to 1.9 percent in 2013 albeit the action by the U.S. Congress to avoid sudden tax increases and spending cuts, including through an extension of unemployment benefits during 2013. In the absence of such Congressional action, the slowdown would have worsened[1].

Table 1: Overview of the World Economic Outlook Projections

	2011	2012	2013	2014	2015
World Output	2.7	2.3	**2.4**	**3.1**	**3.3**
Advanced Economies	**1.6**	**1.3**	**1.3**	**2.0**	**2.3**
United States	*1.8*	*2.2*	*1.9*	*2.8*	*3.0*
Euro Area	*1.5*	*-0.4*	*-0.1*	*0.9*	*1.4*
Emerging & Developing Economies	**5.9**	**5.1**	**5.5**	**5.7**	**5.8**
Russia	*4.3*	*3.5*	*3.6*	*3.9*	*3.8*
China	*9.3*	*7.9*	*8.4*	*8.0*	*7.9*
Brazil	*2.7*	*0.9*	*3.4*	*4.1*	*4.0*
India	*6.9*	*5.1*	*6.1*	*6.8*	*7.0*
Middle East & North Africa	**-2.4**	**3.8**	**3.4**	**3.9**	**4.3**
Sub-Saharan Africa	**4.5**	**4.6**	**4.9**	**5.1**	**5.2**

Source: World Bank Global Economic Prospects (Jan 2013)

Gross Domestic product (GDP) growth in the Europe Area is estimated to have slowed sharply to -0.4 percent in 2012 from 1.5 percent in 2011 as the region faced significant headwinds, including weak external demand, unresolved debt issues and commodity-price induced inflationary pressures. Growth in the region is only projected to recover to 0.9 percent in 2013 and 1.4 percent by 2015. Medium-term prospects for the region will critically depend on progress in addressing the major constraints to growth including large current account and fiscal deficits and unemployment, inflation and structural constraints, (World Bank 2013).

Growth in the Emerging and Developing economies slowed to an estimated 5.1 percent in 2012, from 5.9 percent in 2011, largely due to weak external demand and policy actions in China to contain inflation. Growth in the Emerging and Developing economies, excluding China, slowed gradually due to robust domestic demand. Regional GDP growth is projected to pick up to 5.5

[1] Statement by Mr. Gerry Rice, Director of External Relations at the International Monetary Fund (IMF), on U.S. "Fiscal Cliff" Measures, Press Release No. 13/01 January 2, 2013

percent in 2013 before stabilizing at around 5.8 percent by 2015, (Table 1). China's economy is projected to expand at 8.4 percent in 2013, before easing to 7.9 percent by 2015, fueled by fiscal stimulus and the faster implementation of large investment projects, World Bank (2013). Growth in the other BRIC economies (Brazil, Russia, India and China) is also projected to support growth in the Emerging and Developing economies category.

Growth in the Middle East and North Africa (MENA) region continues to be affected by political uncertainty and unrest in several countries. Regional GDP is estimated to have recovered from a 2.4 percent decline in 2011 to grow by 3.8 percent in 2012, (Table 1). Regional output is projected to slow to 3.4 percent in 2013 before rising to 4.3 percent by 2015, assuming an easing of the current uncertainty and domestic unrest, strengthening of tourism, and recovery of the region's exports as global demand continues to firm.

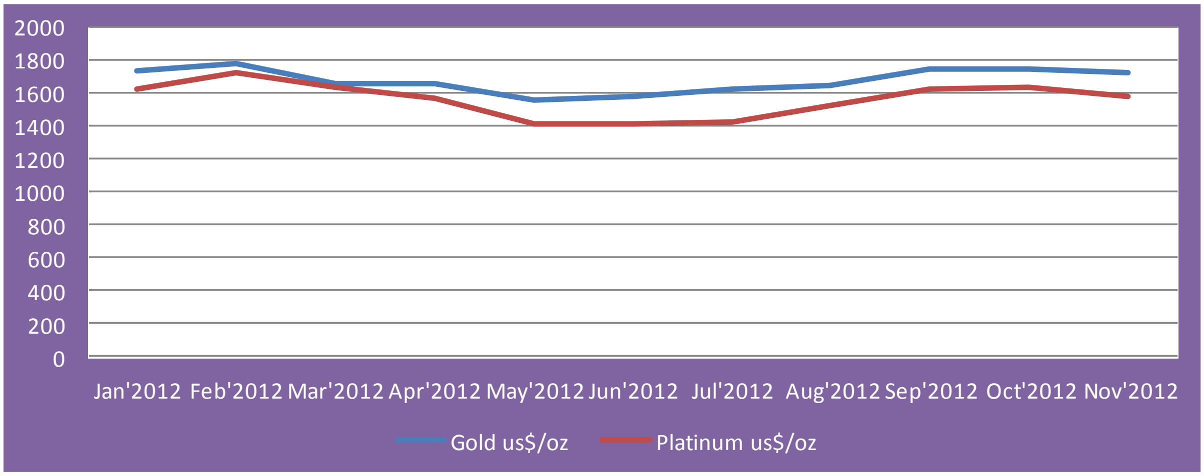
Growth in Sub-Saharan Africa remained robust at an estimated 4.6 percent in 2012. This growth rate was affected by the shock experienced at South Africa mines as a result of the industrial actions. If South Africa is excluded, Sub Saharan GDP expanded by 5.8 percent in 2012, with a third of countries in the region growing by at least 6 percent. Robust domestic demand, high commodity prices, increased export volumes and steady remittance flows were the key factors supporting growth in 2012, in the SSA region. The region is projected to grow at its pre-crisis average of 5 percent during 2013-15 on the back of strong domestic demand, accommodative & productivity-enhancing policy environment, increasing foreign direct investment flows, relatively high commodity prices, and increased export volumes in countries with new mineral discoveries in Sierra Leone, Niger and Mozambique.

1.2 International Commodity Prices

1.2.1 Gold and Platinum Prices

Prices for precious metals were weaker in the 4th quarter compared to the 3rd quarter. Gold prices closed the fourth quarter at US$1 723 down from US$1 743 recorded at the close of the third quarter in September. Platinum on the other hand closed the month of November at US$1 577 down from US$1 621 recorded in September. The poor performance of gold and platinum during the last quarter was mostly as a result of uncertainty around the economic and political climate in Spain, Greece and Italy. Riots in Greece against austerity measures also affected the precious metals prices so were the industrial actions that were experienced at South African Mines during the fourth quarter. Discussions around the fiscal cliff in the United States also weighed in to affect the price of the precious metals in the fourth quarter of 2012.

Figure 1: International Gold and Platinum Prices, January 2012-November 2012



Source: Bloomberg and Reuters

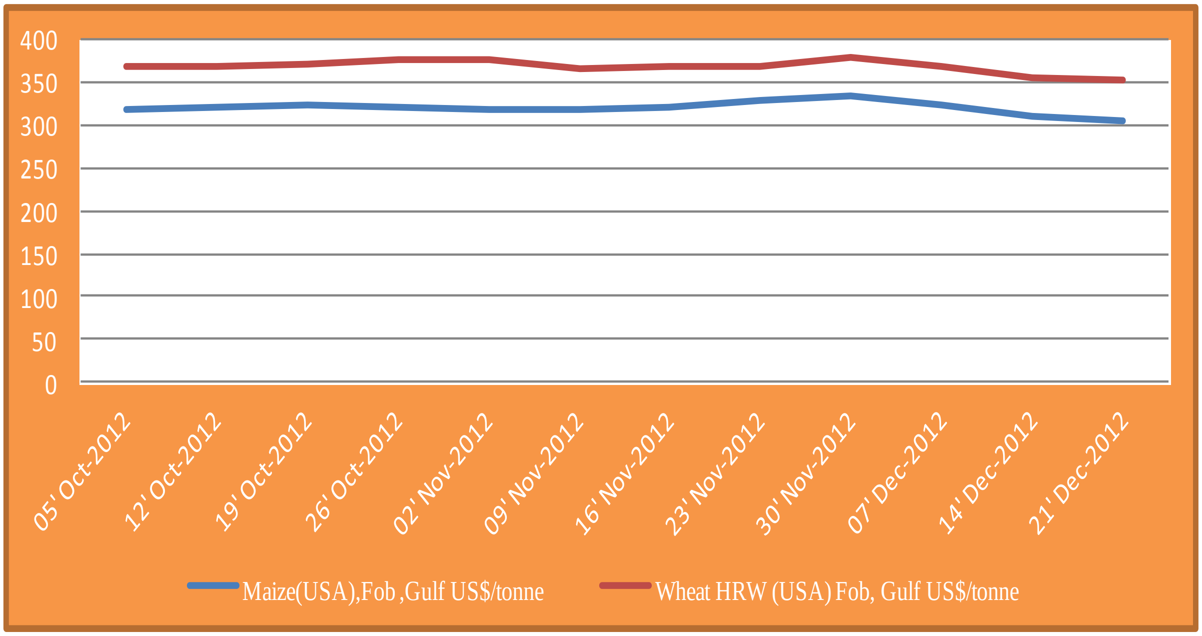
Platinum prices could have declined more had it not been the industrial actions at Bokoni mine, Marikina mine, Impala platinum and Modikwa mine in South Africa which weakened the supply side hence causing prices to firm. The Asian effect also contributed to the firming of prices in early October. The Asian platinum market usually takes advantage of weak platinum price to engage in physical buying which gave a quick boost in price before the price weakened again. Price decline experienced in the greater part of the last quarter were as a result of the fall in demand for the precious metal at the Shanghai Platinum/Gold exchange in China. The Eurozone crisis also weighed down on the weakening prices of platinum.

The downward movements in Gold prices were a result of the deprecation of the Indian Rupee which may have curbed the demand for gold in India, one of the leading importers of gold. The depreciation of several currencies against the United States Dollar including the Yen and Canadian dollar during the period under review may have also contributed to downward movements in mineral prices. Platinum prices closed at around US$1 556 per ounce at the end of October, which was the lowest price since the announcement of Quantitative easing in quarter three. Despite the continued labour unrest, as Anglo workers in South Africa did not report for duty as agreed at the end of October, the market seemed tired of factoring that into trade and platinum prices continued to soften in November. The price of platinum firmed in the third week of November and closed at US$1 615 per ounce before dropping to US$ 1 577 per ounce by end of November.

In December precious metals prices continued to sink. The main cause of such low prices has been the Federal fiscal cliff discussions. Investors were market watching awaiting the decisions of the discussions between the White House and Congress officials regarding cutting the US budget deficit and avoiding the fiscal cliff. A Fiscal Cliff is a combination of expiring tax cuts and government spending cuts. The idea behind the fiscal cliff is that if the federal government allows these two events to proceed, they will have a detrimental effect on an already shaky economy, perhaps sending it back into an official recession resulting in cuts in household incomes, increased unemployment rates and declining consumer and investor confidence. It was also predicted that going over the fiscal cliff would significantly reduce the federal budget deficit. The gold and platinum prices also remained subdued as the United States Dollar gained against other currencies. Over the month the Euro/US$ edged up again by 0.21 percent, the Canadian dollar and Aussie dollar on the other hand depreciated against the USD. This makes metal prices in United States unit more expensive for holders of other currencies.

1.2.2 Maize and wheat

Figure 2: Maize and Wheat Prices (USA), Fob and Gulf



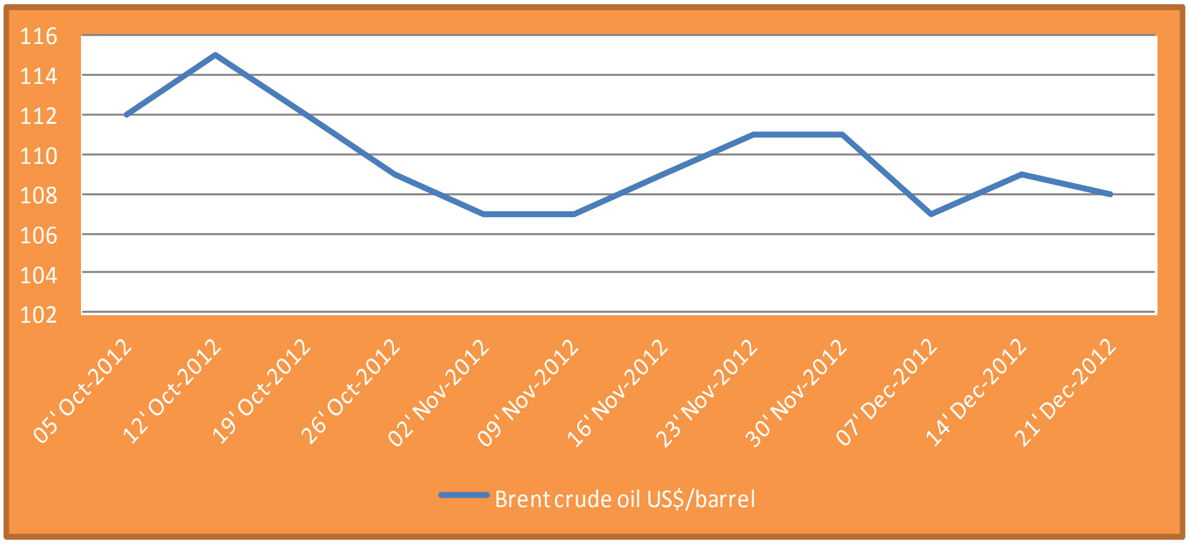
Source: International Grain Council

The fourth quarter saw grain prices exhibiting some cyclical trend (Figure 2). The price of maize in fourth quarter was mostly driven by market expectations that the prices would further increase by the end of the season due to the unfavourable weather conditions. Some of the major factors expected to affect the price of maize were the decline of maize demand in Mexico and China; decline in maize supplies in the United States and the adverse weather conditions that affected planting in South America. In December, prices declined due to increase in supplies as harvest neared completion, in the Northern Hemisphere. The statistics from the Northern Hemisphere show sharp year on year declines in the US, Ukraine and European Union while output in the Southern Hemisphere is still expected to reach a new higher record. The international grain council reported that the year on year maize production is expected to fall by 5 percent and stocks are set to fall.

The price of wheat continued to perform better than the price of maize throughout the quarter (Figure 2). Positive price movements of wheat were as result of a decline in wheat supplies in the Black Sea Region, lower wheat yields in the European Union and Kazakhstan as well as, deteriorating crop prospects in Argentina and Australia. In December wheat prices showed signs of being affected by harvest in most markets. On the other hand, speculations around dwindling Black Sea supplies and the prospect of exports curbs in Ukraine have dominated flows from the region. According to the international grain council wheat total harvest area for 2013-14 is set to increase by 2percent due to generally good performance in the 2012-13 season.

1.2.3 Crude Oil

Figure 3: International Brent Crude Oil Prices



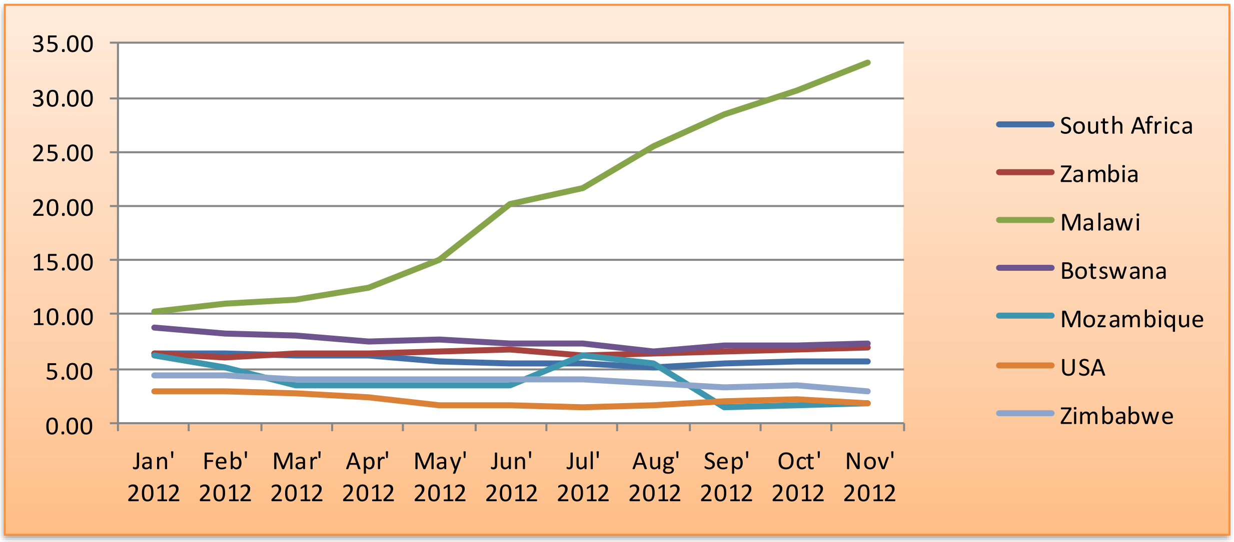
Source: Bloomberg and Reuters

Crude oil prices were generally on a decline during the last quarter of 2012 (Figure 3). The decline was mostly driven by speculation that the Euro debt crisis and economic slowdown in Asia will curb demand for crude oil. Some of the factors that affected the prices of oil include; concerns around the struggling world economy and its impact on oil consumption and concerns about disruptions to Middle East supplies following a flare up of geopolitical tensions in the region. Other factors to weigh in were the effect of the on-going rise in oil production and stockpiles along with the expectations for a slowdown in growth in demand for oil which was expected to pull down the oil prices. The Energy Information Administration (EIA) report highlighted that the United States average oil production increased by 2.3 percent in December while the world oil imports increased by 4.4 percent during the same month. The report further showed that the current oil stockpiles are 57.6 million barrels above the 2011 figures at the same time. If the increase in stock piles continues, the prices of oil will continue falling.

1.3 Inflation Developments in the SADC Region

The SADC regional inflation rates remained under control during the fourth quarter of 2012 comparing favourably to those prevailing in developed countries such as the United States of America (Figure 4). The only outlier in terms of inflation in the region was Malawi whose inflation rate was above 10 percent. Inflation in Malawi rose to 33.3 percent in November mostly driven by sharp currency devaluation and a subsequent floatation of the local currency starting in May 2012. The local currency was devalued by 50 percent in the fourth quarter. The country also has been experiencing chronic shortage of fuel; foreign currency and excessive power cuts putting pressure on the inflation rates.

Figure 4: Regional Inflation including USA



Source: Trading economics

Botswana also experienced increased rates of inflation hovering around 7 percent in the last quarter. The increase in the rate of inflation in Botswana was a result of harsh government levies and the general increase in international foodstuff prices. There is need for the government of Botswana to put in place measures to reduce the rates before they go beyond the 10 percent. Mozambique has managed to record the lowest inflation rate in the region; dropping from 6.14 percent in January 2012 to 1.8 percent recorded in November 2012. Food items and non-alcoholic beverages, clothing and footwear, leisure, entertainment and culture continue to post negative inflation rates.

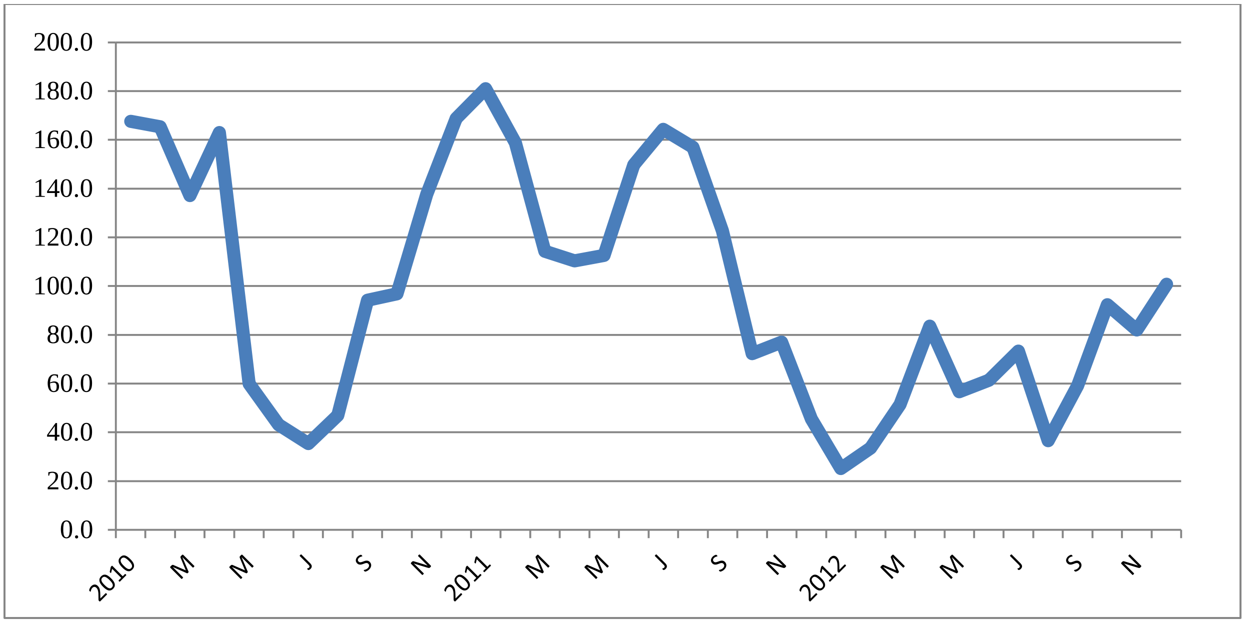
Inflation has been on a decline in Zimbabwe during the last quarter of 2012. The annual inflation rate dropped from 3.63 percent in August to 2.99 percent in November 2012. The major drivers of inflation in the country has been a combination of food and non-food inflation, rent, water, electricity, communication and alcoholic beverages as excise duty were increased.

2.0 MACROECONOMIC DEVELOPMENTS

2.1 Macroeconomic Overview

ZEPARU has constructed a composite leading economic indicators index (CLI) for the period since 2010 (Figure 5). The choice of the start and cut-off dates was determined by data availability in the multicurrency system period. The purpose of the index is to indicate the direction of economic activity. This is key in the sense that policy makers can then, in advance, find measures to address possible adverse developments in economic activity.

Figure 5: ZEPARU Composite Leading Indicators Index

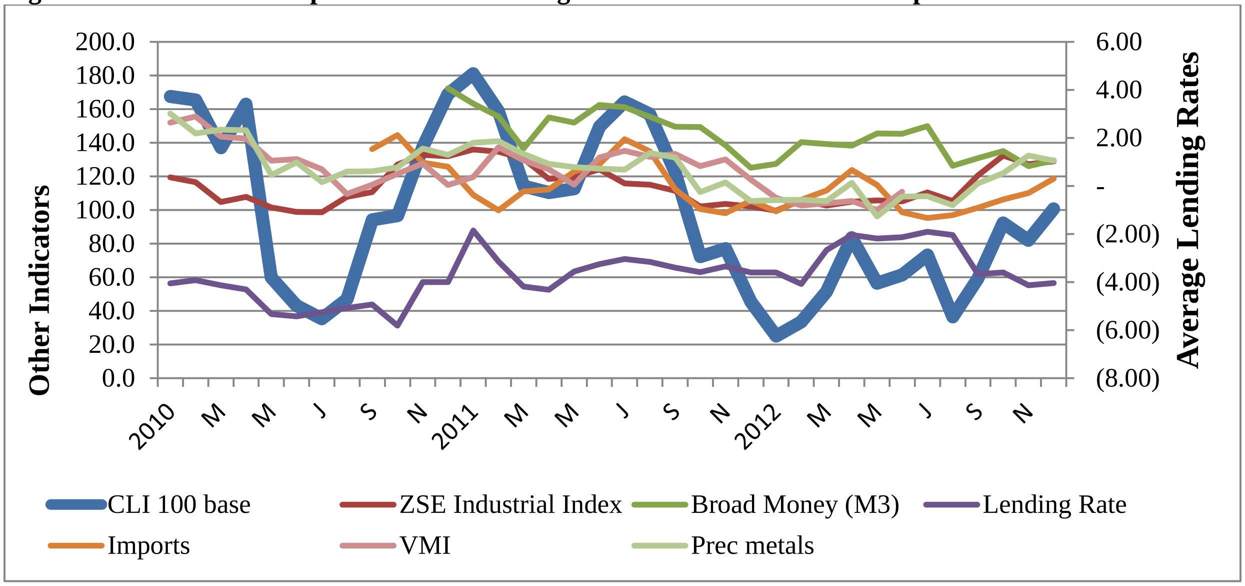


Source: ZEPARU

The variables used to construct the CLI include the Zimbabwe Stock Exchange (manufacturing and mining) indices; broad money supply (M3)[2] and real M3; imports; precious metal (gold and platinum) prices; Zimbabwe Electronic Transfer and Settlement System (ZETSS); pay-as-you-earn (PAYE), volume of manufacturing index; interest rates and inflation levels (Figure 6). These variables were considered key determinants of overall economic activity in Zimbabwe over the reference period. The choice of the variables was partly determined by data availability, among other factors. As data becomes available, more variables may be added.

[2] Broad money supply (M3) is defined as total banking sector deposits, net of inter-bank deposits.

Figure 6: Normalized Components of the Leading Indicators Index and Its Components



Source: Various Sources

The consumer price index (CPI) series was calculated using December 2008=100 base, using month-on-month inflation data. Using this, real M3, real PAYE receipts and real bank lending interest rates were calculated. Monthly data was converted to quarterly data. For flow data (PAYE receipts, imports and output), this involved calculating a moving average over the quarter (the current month and the previous two months) in any particular month. The import variable represents intermediate imports. Stock and price data were left untransformed. Annual and six monthly growth rates of all variables, except for inflation and interest rates were calculated. A composite metals price growth rate was calculated as a simple average of the growth rates of gold prices and platinum prices to reflect Zimbabwe's two major metals exports, which have approximately equal export values. Given the short data series, we preferred to use 6-month growth rates, as this gives additional observations based on the source data. It is also more sensitive to turning points, but not as subject to noise volatility as quarterly growth rates. The data are then normalised by dividing each observation by the standard deviation of the series. Inflation and interest rates were multiplied by minus 1 as high inflation and interest rates create negative growth conditions.

Ideally, the CLI and the component series should also be compared with the real GDP data series, as it is this that the CLI series should lead. However, this requires a reasonable period of quarterly GDP data, and such a comparison, which will also enable a clearer focus on leading (rather than coincident or lagging) indicators, will take some time, in the absence of such a GDP data series.

In terms of interpretation of the CLI index, the absolute level of the CLI does not have any meaning but interpretation focuses on changes in the CLI and on turning points. A downward movement in the CLI indicates that economic conditions are deteriorating (a slowdown in growth), or improving (an increase in growth) for an upward movement. A change in the direction of movement indicates that economic conditions are moving from negative to positive (a trough) or positive to negative (a peak).

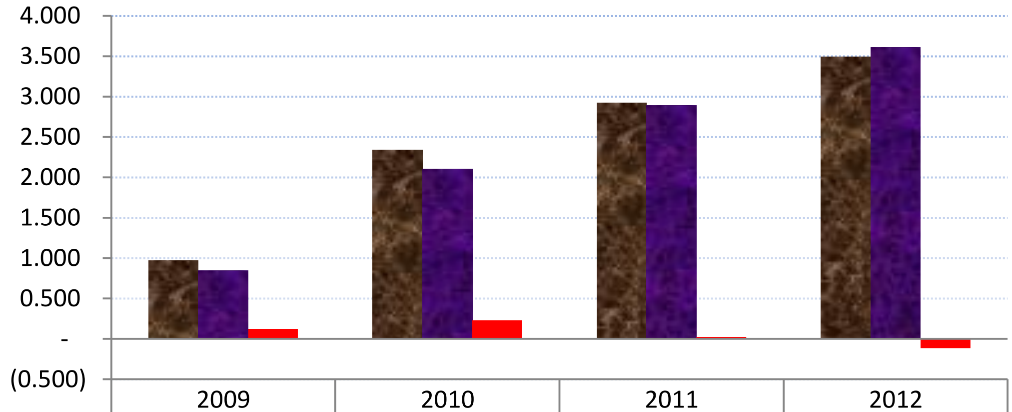
2.2 Fiscal Developments

Revenues

The total Government revenue outturn for 2012 amounted to US$3.496 billion and was 4.12percent lower than the revised projection of US$3.640. Although total Government revenues exhibit steady growth since the inception of multiple currencies, from US$973 million in 2009 to US$3.496 billion, (Figure 7), the real growth rates have been declining from over 140.39 percent between 2009-10 to 19.69 percent between 2011-12.The trend in revenue growth rates to a large extend reflects the growth in the level of economic activity, hence attainment of higher GDP growth rate would be key in enhancing revenue outturn. The low revenue outturn can also be attributed to lack of transparency with respect to mineral revenue, particularly diamond, wherein only US$45.7 million had been received from diamond revenues by end-November 2012, against an initial projection of US$600 million. Going forward, there is need for government to improve transparency in mining, particularly diamond to enhance accountability and provide a platform for realistic projections of expected revenue inflows from the mining sector. Revenue inflows that are commensurate with buoyant minerals prices and growth in mining sector output will go a long way in alleviating the fiscal space challenges that Government is currently seized with.

Options to resolving the current lack of fiscal space have been restrained by the country's high levels of indebtedness. While efforts are being made by Government to resolve the debt and arrears this will not be resolved in the short-term. In this regard Government need to fast-track its arrears clearance and reengagement programme. This will boost the confidence of investors and international development partners regarding the seriousness of the country's economic reform agenda. Improvements in the country's debt and arrears profile will send the correct signals to would-be investors who will be more willing to commit additional resources on Zimbabwean projects. Increased investment in the productive sectors will boost production and ultimately revenue inflows given that fiscal revenue inflows respond positive to the expansion in the production base.

Figure 7: Fiscal Developments 2009 to 2012 in US$ Millions



	2009	2010	2011	2012
Total Gvt Rev (Net)	0.973	2.339	2.921	3.496
Total Expenditures (Net)	0.850	2.107	2.895	3.608
Surplus/ Deficit	0.123	0.232	0.026	(0.112)

Source: Ministry of Finance 2013

Value Added Tax (VAT) remains the largest contributor to total government revenues, accounting for 31.07 percent of the 2012 revenue outturn. Other major contributors included: PAYE (18.90 percent), corporate tax (12.72 percent), Excise duties (11.28 percent), Customs duties (10.12 percent), non-tax revenues (6.20 percent) and other (9.71 percent). Low corporate tax is in part a reflection of the low profitability corporates. Thus, a business environment that leads to an increase in capacity utilisation and corporate profitability should lead to higher fiscal revenue, assuming high levels of corporate tax compliance. The situation where VAT is the largest contributor of total government revenues indicates that our tax system is increasing becoming regressive and penalising the poor.

Expenditures

Growth in Government expenditures remain contained with the available resource envelop in line with the Government's Cash Budgeting principle. Total expenditures grew from US$850 million in 2009 to US$3.61 billion. Whilst the Government can be applauded for maintain fiscal discipline, of major concern however, is the overly consumptive nature of the budget, wherein the expenditure mix is skewed towards the recurrent budget, at the expense of growth-enhancing capital expenditures. The outturn for 2012 show that Government implemented 98.33percent of the planned recurrent expenditures whist only 56.20percent of the capital budget was implemented. Actual capital expenditures for 2012 accounted for 8.63percent of revenues at US$301.66 million against a target of US$536.74 million. The net effect of the current expenditure mix is that it seriously undermines the growth potential of the economy.

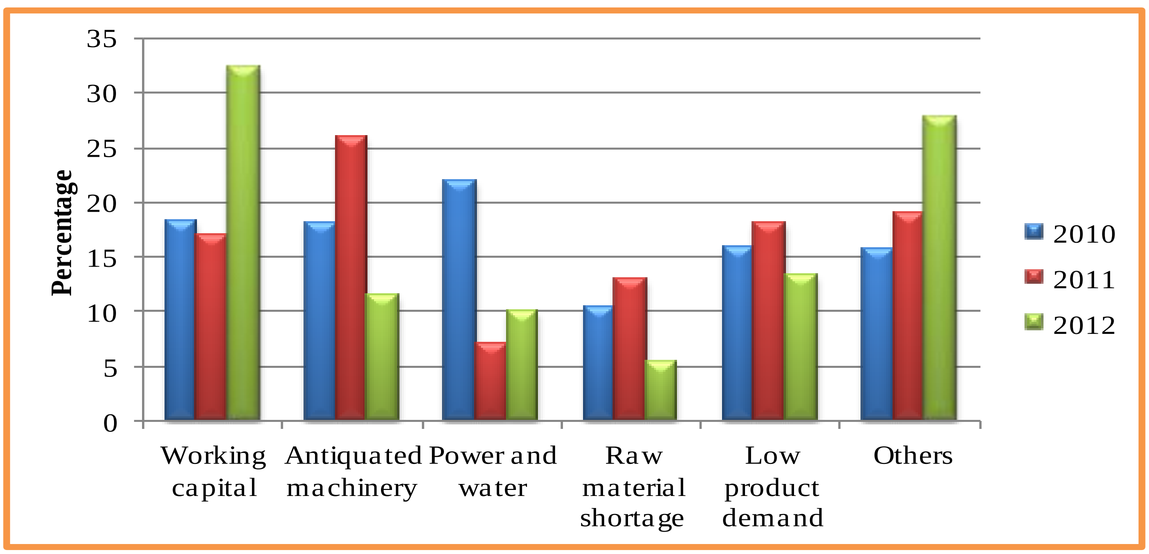
The budget is weakly linked to policy priorities and focuses on short-term objectives because of the very limited fiscal space, which allows only for recurrent expenditures, especially employment costs. In 2012, employment costs amounting to US$1.77 billion accounted for 50.67percent of total revenues and 55, 06percent of the recurrent expenditures, which is higher than international best practices requiring employment costs to be contained at 30percent of the total budget. Therefore, full implementation of civil service audit and a deliberate programme to gradually scale down the size of the public service, could be vital for long-term fiscal sustainability as it help create savings on the employment costs hence creating additional space for spending in growth enhancing and non-employment related expenditures.

Overly, Government incurred a fiscal deficit of US$111.89 million in 2012, (Figure 1), which was mainly financed by savings from the previous years. Cumulatively, the Government has managed to create fiscal savings of US$269 million since 2009. This however remains low and insufficient to act as a shock absorber in the event of the major shock to revenues.

2.3 Manufacturing Sector Developments

During the fourth quarter of 2012, the Confederation of Zimbabwe Industries (CZI) released one of its regular annual publications, the Manufacturing Sector Survey Report. This is a report showcasing findings from a survey of firms in the manufacturing sector. The results generally reveal that the manufacturing sector growth that was being witnessed has long since reached its peak and declining trends are now being witnessed. For example, capacity utilisation which had improved to 57.2percent in 2011 from 43.7percent in 2010 has now fallen again to 44.2percent. Capacity utilisation is defined as the level to which the productive capacity of a plant is being used in the generation of goods. Although the usefulness of the measure might be questioned in Zimbabwe given that most of the plants are antiquated and cannot operate at full capacity even if adequately resourced, capacity utilisation can still be directly linked to the status of production even within the Zimbabwe context. A look at the major challenges being cited by companies for low capacity utilisation reveals that each year a different challenge would come out as the major stumbling block for capacity utilisation (Figure 8). For example, power outages came out as the major challenge towards capacity utilisation in 2010 while challenges related to obsolete equipment and breakdowns were given as the major challenge in 2011. In 2012, firms cited working capital as the major concern, due to challenges they face in getting lines of credit from commercial banks or even from multilateral and bilateral institutions.

Figure 8: Major challenges towards capacity utilisation for Zimbabwe manufacturing firms



Source: CZI Manufacturing Survey Reports

Based on the findings, addressing working capital related challenges has to be prioritised. Whilst banks are willing to lend to manufacturing sector firms, the interest rates charged would be considered too high for profitable production whilst the tenure of the loan is also considered too short for the firms to repay. There is need for a more detailed study on how the issue of access to credit can be addressed. There is also need to understand whether the high cost of credit could be due to low levels of credit worthiness on the part of borrowers rather than any profit oriented motives from the banks. There is a wide spread in the average lending rates for banks, implying that some players, especially with strong balance sheets, get credit on very good terms, while others are charged much higher interest rates. A balanced enquiry into the issue is thus being called for.

Given the challenges currently faced by the sector, the solution requires concerted efforts by all interested and affected stakeholders within the public and private sectors to resuscitate the sector. Achievement of goals of value addition/beneficiation pronounced in the Industry and Trades Policies launched at the beginning of the year is premised on a viable and vibrant manufacturing sector.

2.4 Mining Sector Developments

The World Gold Council published the *Conflict-Free Gold Standard* designed to be implemented by World Gold Council member companies and other entities involved in the extraction of gold. The standard was developed after realising that gold has special characteristics, which give it intrinsic value and has made it a potential source of finance for armed groups involved in civil conflicts and insurgencies. Thus, the standard has been developed to establish a common approach by which gold producers can assess and provide assurance that their gold has been extracted in a manner that does not cause, support or benefit unlawful armed conflict or contribute to serious human rights abuses or breaches of international humanitarian law. Therefore, the Conflict-Free Gold Standard is benchmarked on international codes such as the Voluntary Principles on Security and Human Rights and the UN Guiding Principles on Business and Human Rights. Hence, like the Kimberly Process Certification Scheme (KPCS), gold mining companies operating in Zimbabwe will be bound by this standard for their gold to be freely accepted, especially on the London Bullion market, which is expected to lead the implementation of the standard.

The Minister of Finance presented the 2013 National Budget and projected that the economy is going to grow by 5percent in 2013 and will be mainly driven by the mining sector, which is expected to grow by 17 percent. The Minister predicted that in 2013 diamond output is expected to increase to 16.9 million carats whilst platinum output is expected to rebound to 11.5 tonnes and the recapitalisation of Hwange Colliery Company should result in coal output growing to 2.5 million tonnes. He also pointed out that the resumption of production at Bindura Nickel Corporation’s Trojan Mine will boost nickel output to more than 10 000 tonnes and gold deliveries is expected at 17 000 tonnes.

The 2013 National Budget highlighted that the government will undertake a comprehensive review of the fiscal mining regime to ensure that there is a balance between viability of the mining industry and revenue inflows to the national treasury. As noted earlier revenue inflows from the mining sector should be commensurate with buoyant minerals prices and growth in production in the mining sector. There is need for Fiscal Authorities and the players in the Mining sector through the representative bodies like the Zimbabwe Chamber of commerce to create a platform to share information regarding the expectations of the fiscal authorities and the capacity of the sector to meet these expectations. This dialogue needs to be supported be supported by credible data and/or well-founded research findings. In this regard the review of the fiscal mining regimes needs to be based on sound empirical evidence to avoid policy contestations which may lead to policy reversal and loss of policy credibility.

Meanwhile, Anglo Platinum's (Amplats) Unki Mine reached an agreement with the National Indigenisation and Economic Empowerment Board (NIEEB) to cede 51 percent of its shareholding to locals. The new shareholding structure will result in the Tongogara Community Trust, the Employee Share Ownership Trust and unnamed strategic indigenous investors, each getting 10 percent of the company shareholding and the National Indigenisation Economic Empowerment Fund will get 21 percent of the shareholding and the transaction will be financed through a National Vendor Finance (NVF) mechanism in which a loan equal to the value of the shares would be granted for the purchase of the shares and the beneficiaries shares would be used as collateral. Thus, in return there would be a waiver of the borrower's rights to receive future dividends paid by the company during the NVF term.

Mimosa Platinum revealed its plans to comply with the country's indigenisation laws by ceding 51 percent shareholding with an estimated value of $556 million to locals. Thus, implementation of the plan will result in Mimosa shareholders ceding 31 percent shareholding to the National Indigenisation and Economic Empowerment Fund, 10 percent to the an employee ownership scheme and 10 percent to the Zvishavane Community Share Ownership Trust. The share transfer will be financed through a vendor finance agreement in which the new shareholders will cede their rights to receive future dividends in the next 10 years, also the National Indigenisation and Economic Empowerment Board will take over the US$ 57 million debt owed to Mimosa by the Reserve Bank of Zimbabwe as part of its shareholding obligation.

The country's held its inaugural Zimbabwe Diamond conference in Victoria Falls under the theme "Unlocking Zimbabwe's Diamond Potential Together". The diamond conference gave the country a rare opportunity to market itself as an attractive investment destination in the diamond industry. The conference also saw leading diamond experts calling for the removal of sanctions by the United States Government on the trade in Marange diamonds issue. Meanwhile the Kimberley Process Certification Scheme (KPCS) finally allowed the Government of Zimbabwe to sign the Marange Diamonds export certificates for companies operating in Marange diamond fields without having to consult KPCS monitors. This followed a presentation of a positive report by KP monitor on the countries undertaking to fully comply with the KPCS rules.

The Government of Zimbabwe set up a committee to handle pending issues hindering progress on the implementation of the Essar deal. The committee will be comprised of officials from Essar Holdings, Ministry of Mines and Mining Development and Industry and Commerce will deliberate on issues concerning joint exploration and the transfer of iron ore mining rights to New Zim Minerals. Resumption of operations at New Zim Steel (formerly Zisco steel) has been stalled over concerns by government on the transfer of iron ore claims to New Zim Minerals. Meanwhile, a cabinet team has also been put in place to monitor the committee's progress in resolving the issue. Delays in resolving this issue and similar transactions will inevitably result in costs for the country due to missed opportunities and revenue streams. It may be useful for

Government to institute a study to assess the cost to the economy of delays in making policy decisions or implementing approved policies.

A US$2 billion coal and methane gas project has been commissioned in Lupane. The project is a joint venture project between Old Stone Investment and a Chinese company Shan Don Sunlight Energy Company. The companies plan to embark on coal mining and power generation. The plan includes building a 1 800 megawatts thermal power plant. The project is also expected to support downstream industries in fertiliser manufacturing and liquid gas processing activities.

2.5 Agriculture Sector Developments

2.5.1 Agriculture inputs supply and finance

The Agriculture sector grew by 5.1 percent in 2011 and it is projected to grow by 4.6 percent and 6.4 percent in 2012 and 2013 respectively. This growth is going be supported by credit financing facilities to farmers as well as continued contract farming arrangements for major crops like tobacco, cotton, barley and soya beans. The agricultural sector was allocated 4 percent of the total 2013 National Budget. The government plans to provide 15 percent of the required funds for the agriculture inputs, with the balance coming from the private sector.

In the last quarter of 2012, the government commenced repaying loans it owed to the seed houses and fertilizer companies in order to allow continued supply of inputs to the farmers. The Grain Marketing Board was authorized by the government to dispose 69 000 tons of Strategic Grain Reserve in maize and wheat so as to pay outstanding debts owed to farmers.

The government's total debt owed to seed houses, fertilizer companies, transporters and farmers stood at $121 471 642. The government had managed to clear 68.3 percent of this amount by the end of the last quarter. The greater part of the amount still outstanding largely belong to the seed houses and the fertilizer companies. Table 2 below summarises the progress that the government had made in debt clearing at the end of the 4th quarter.

Table 2: Progress in Debt Clearing

CUSTOMER	DEBT (US$)	PAID(US$)	BALANCE(US$)
Seed houses	32 330 069	17 140 264	15 189 805
Fertilizer Companies	56 153 461	39 358 623	16 794 838
Transporters	4 898 000	1 000 000	3 898 000
National Foods	2 600 000	2 600 000	-
Farmers (Maize)	23 702 070	22 902 317	799 753
Farmers (Wheat)	1 788 042	-	1 788 042
TOTAL	**121 471 642**	**83 001 204**	**38 470 438**

Source: Agricultural Marketing Authority

According to Agriculture Marketing Authority a total of 106 500 metric tonnes of fertilizer was in stock as at the end of October 2012. Of this 56 percent was produced locally, and the balance was imported by the local fertiliser producers as well as traders. This reflects low capacity of the local fertilizer companies to meet country's demand as the national requirement of fertilizer is around 300 000 metric tons. If the government could clear the debt it owes to the fertilizer companies, this could produce 137 000 metric tons of fertilizer for the remainder of the season but still leaving fertilizer available on the market in short supply.

Table 3 below shows the seed stock position and the planned hectarage of major cereal crops and cash crops in the last quarter of 2012.

Table 3: Seed Supply and Planned Hectarage for 2012-2013 Season

Crop	Available	Hectarage
Maize	66 482 tons	2,659,280
Wheat	9 105 tons	91,050
Soya beans	6,730 tons	67,300
Sorghum hybrid	1,200 tons	120,000
Mhunga	500 tons	50,000
Rapoko	25 tons	2,500
Groundnuts	1,095 tons	10,950
Cow peas	350 tons	17,500
Cotton	15,000 tons	750,000

Source: Government of Zimbabwe (2012). The 2013 National Budget

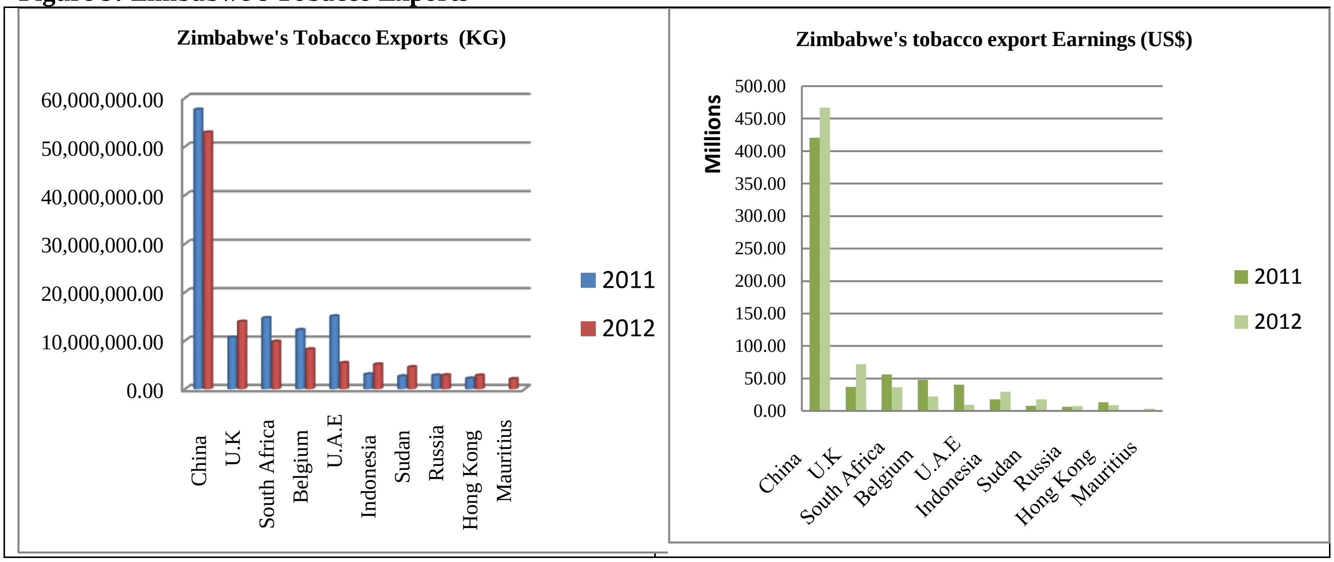
The maize seed in stock (Table 3) is by far less than the national requirement of 500 000 tons. The 2013 National Budget projects maize production to increase from the current output of 968 000 tons to 1.1 million tons in 2013. This increase is expected to be realised owing to the introduction of the drought resistant seed varieties in the drier parts of the country.

2.5.2 Tobacco export performance in 2012

In 2012, a total of 122 354 614.10kg of tobacco worth $735 186 647.60 were exported as compared to 144 005 446.00kg worth $728 924 125.77 over the same period last year. The volume exported in 2012 declined by (15 percent) as compared to that of 2011.

According to Tobacco Industry and Marketing Board (TIMB), Zimbabwe exported its crop mainly to the Asian countries, the EU and its regional partners in Eastern and Southern Africa in 2012. Figure 9 summarises the country's exports to the top ten major importers of tobacco from Zimbabwe between 2011 and 2012. Zimbabwe received 63.5 percent of its tobacco exports earnings from China in 2012 as compared to 40 percent in 2011. Market price of $8.82/kg for tobacco in China was very lucrative as it ranked second after Japan that offered a market price of $10.18/kg. Markets that offered the lowest prices for Zimbabwe's exports were Switzerland and Ireland that offered a price of $0.10/kg and $0.45/kg respectively. Tobacco prices are determined by tobacco grades. According to TIMB, there are more than 2 000 grades of tobacco classification according to quality. The Asian market requests only top quality grades hence the prices are firm. The other markets usually purchase low quality leaf tobacco as well as by-products which attract low prices.

Figure 9: Zimbabwe's Tobacco Exports



Source: TIMB

2.6 Banking and Other Financial Sector Developments

According to the RBZ, Royal Bank, which was placed under curatorship in July 2012, may likely be liquidated. This is against the background of the bank's failure to attract new investors and to improve on the weaknesses that led to its closure. This outcome suggests that there are still challenges in attracting investors in the banking sector. In the multicurrency system, no new banks have come up, suggesting a difficult bank operating environment. This also suggests that in the current environment, banks with weak balance sheets are not attractive to new investors face serious survival challenges.

2.6.1 Reintroduction of Government Treasury Bills (TBs)

In the fourth quarter of 2012, an attempt by Government and RBZ to re-introduce Treasury Bills (TBs) was not successful. TBs were last auctioned in 2008. The TB auctions commenced on the 4th of October 2012 and ended on the 6th of November 2012 (Table 4).

Table 4: Treasury Bill Auction Results

Auction Details	04 Oct-2012	24 Oct-2012	24 Oct-2012	26 Oct-2012	06 Nov-2012
Amount on Offer (US$ million)	15	15	15	15	30
Bids (US$ million)	7.7	6.5	4.7	11.05	8.65
Number of bidders	9	6	6	12	13
Uptake (Bids/Offers) percent	51.33	43.33	31.33	73.67	28.83
Accepted (US$ million)	0	0	0	9.85	0
Amount Rejected (US$ million)	7.7	6.5	4.7	1.2	8.65
Tenor (Days)	91	91	91	91	91
Minimum Interest Rate (percent)	5.5	5	5	5	8.5
Maximum Interest Rate (percent)	15	14.5	14.5	13	12

Source: Reserve Bank of Zimbabwe

Of the auctions conducted, only one auction that was conducted on the 26th of October 2012 was partially successful. The auction had US$15 million on offer. Bids worth US$9.85 million were accepted while bids worth US$1.2 million were rejected. The bid rates ranged 5-13 percent. For the rest of the auctions, all the bids were rejected. The TB auctions were characterized by low participation by commercial banks, who were the only participants. Bid rates for the unsuccessful auctions, ranging from 5-15 percent, were not considered favourable by the RBZ and Treasury, resulting in general rejections. These bids were rejected, largely because the RBZ and Treasury considered the bid rates too high. The number of bidders per auction was low, given the 18 commercial banks in Zimbabwe.

RBZ and Treasury expressed concern over the low participation by commercial banks in the auctions. This was against the background that previously, the banks had asked for the re-introduction of TBs as short-term debt instruments in the market. However, commercial banks seemed to have some other reasons for their low participation. Some of these reasons advanced by relevant stakeholders suggested that there could be underlying political risks, economic and operational issues, beyond the interest rate issues. Weak participation was explained by a number of reasons as follows:

a. Commercial banks did not consider TBs a low-risk instrument. This was against the background of low Government credit worthiness and RBZ's inability to print money in the multicurrency system. According to commercial banks, there was high possibility of Government rolling over TBs at maturity. With cash-budgeting in place, it was also likely that in future, funds would not be available to honour maturing TBs. Government still has limited fiscal space.

b. Government is operating with huge debt levels (domestic and foreign). The weak revenue generating capacity of Government, against growing needs for funding created scepticism about the potential of Government to honour TBs at maturity. In addition, the under-capitalization of the RBZ suggested that the institution would not assist Government to honour TBs in the event that Government failed to do so.

c. Most banks were not prepared to buy TBs on an experimental basis. They did not want to lock funds in TBs that could be affected by other unfavourable developments in the economy. Some banks adopted a wait-and-see attitude as they saw possibility of Government default.

d. In terms of qualities, the TBs had no buy-back feature, a characteristic that discouraged most banks from purchasing the TBs. The formula that was used to calculate the TB allotment rate, which was an average of all bid rates, was considered unfavourable by banks. Banks had previously asked for TBs with a view that they would be able to use them as security to borrow on the lender-of-the-last resort window at RBZ, a window which still has limited funds.

e. The TBs were offered only to commercial banks when there were other institutions that had money and could have participated. These included insurance companies, pension and mutual funds. Some of the weak banks with fragile balance sheets still faced liquidity challenges. They had no capacity to invest in the TBs.

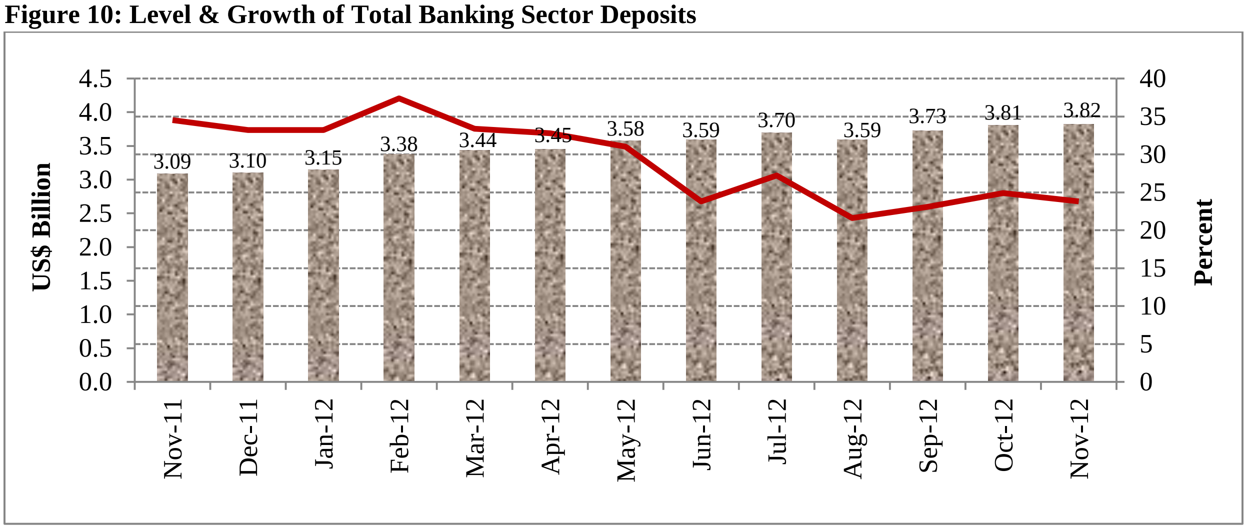
f. There were also views that the need for funds by Government through the issuance of TBs was going to exert too much pressure on the banks that are expected to cover most of the financing needs for the private sector such as funding of Agriculture and Manufacturing industries, among others. Political and economic uncertainty surrounding the national elections in 2013 caused lack of enthusiasm on the part of some banks.

The outcomes of the TB auctions suggested several issues which need to be addressed. The divergent views on the interest rate levels between the authorities (RBZ and Treasury) and the banks should be resolved. The question still remains as to where the interest rate levels should be in the economy, given the lack of a benchmark interest rate. There is need for Government to resolve its debt (domestic and foreign) challenges, to unlock other avenues of long term capital and ease pressure on commercial bank lending for both Government and private sector firms. Ideally, as the economy develops, there should be more non-bank developmental financial institutions. These would cater for the growing and divergent needs for funding in the economy, particularly long-term funding. These include the stock exchanges, development banks and venture capital companies, among others. In addition, the experiences of the Zimbabwe Dollar era where some monies were lost create scepticism in purchasing Government instruments. It became apparent that the Government could not rely on TBs to raise funds.

2.6.2 Banking Sector Deposits

In the fourth quarter of 2012, total banking sector deposits, which are net of inter-bank deposits, increased from US$3.81 billion in October 2012 to US$3.82 billion in November 2012. This compared to an average of US$3.67 in the third quarter of 2012. Given these figures, there is need to sustain the momentum in deposit mobilization into the formal banking sector. This implies a need to address low deposit rates, high bank charges and to further improve depositor confidence in the formal banking sector. Along this line, a policy measure was pronounced in the 2013 National Budget Statement that removed interest charges on deposits of up to US$800.00. However, while this is favourable for depositors, it is likely to hurt weak and small banks as the measure constitutes free banking in banks with a high concentration of depositors in this category.

Figure 10: Level & Growth of Total Banking Sector Deposits



Source: RBZ Monthly Economic Review, November 2012

As shown in Figure 10, as of November 2012, the composition of total bank deposits was as follows: demand deposits (49.93 percent); saving and short-term deposits (32.54 percent) and long-term deposits (17.53 percent).

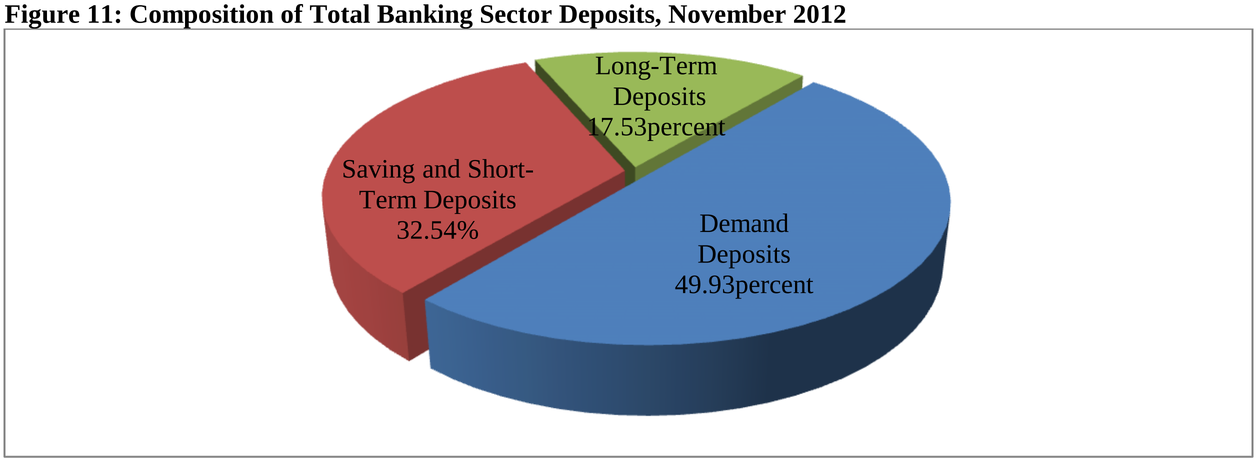
Table 5: Total Banking Sector Deposits (US$ Billion)

Type of Deposit	Sep-2012	Oct-2012	Nov-12	Monthly Increase (Absolute) US$ Billion	Monthly Increase (Percent)
Demand Deposits	1.97	2.02	1.91	(0.11)	(5.34)
Saving and Short-Term Deposits	1.20	1.31	1.24	(0.07)	(5.25)
Long-Term Deposits	0.56	0.48	0.67	0.19	38.80
Total Deposits	**3.73**	**3.81**	**3.82**	**0.01**	**0.28**

Source: Reserve Bank of Zimbabwe Monthly Economic Review

As shown in Table 5, there was a notable increase in long-term deposits, from US$0.48 billion in October to US$0.67 billion in November. There is need for policy measures that would further promote long-term deposits, which are important in financing long-term investments. Along these lines, Government and other key stakeholders could consider resuscitating other financial institutions that could generate long-term funding, as opposed to relying on bank loans only. Such institutions include the stock exchange, development banks and venture capital companies. As the economy develops, there should actually be more non-bank financial institutions than banks to cater for the diverse financial needs.

Figure 11: Composition of Total Banking Sector Deposits, November 2012

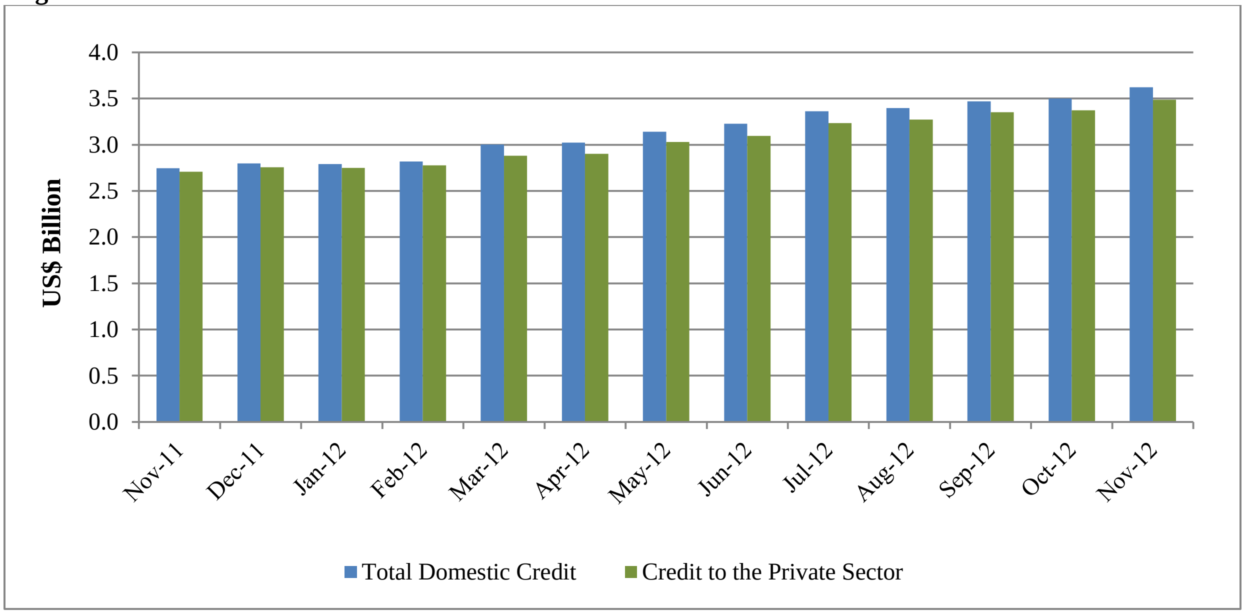


Source: Monthly Economic Review, November 2012

2.6.3 Bank Credit to the Private Sector

In the fourth quarter of 2012, credit to the private sector accounted for 96.3 percent of total domestic credit, compared to 96.4 percent in the third quarter (Figure 12). The outcomes imply that banks have been lending a significant portion of the mobilized funds to the private sector. In November 2012, credit to the private sector accounted for US$3.5 billion of the total domestic credit, compared to US$3.4 billion out of the US$3.5 billion, respectively in October 2012.

Figure 12: Bank Credit to the Private Sector



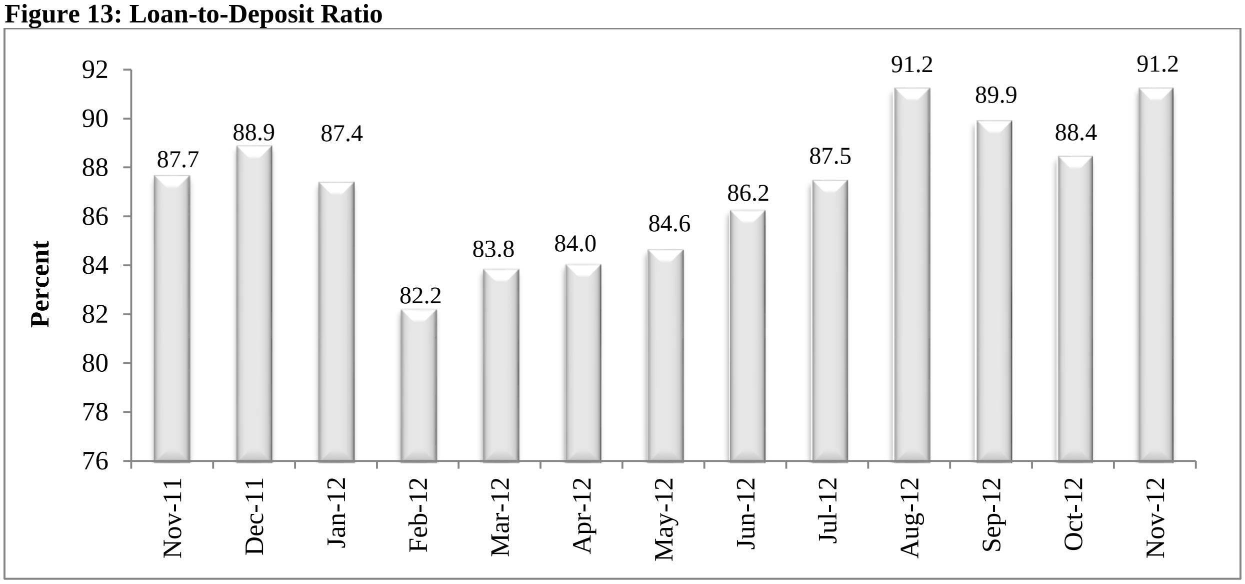
Source: Monthly Economic Review, November 2012

For the economy to recover, more bank credit needs to be channelled to key productive sectors.

2.6.4 Bank Loan-to-Deposit Ratio

In the fourth quarter of 2012, the loan-to-deposit ratio averaged 89.8 percent, compared to 89.5 percent in the third quarter (Figure 13). On a month-on-month basis, the loan-to-deposit ratio increased from 88.4 percent in October 2012 to 91.2 percent in November 2012. The increase in November 2012 was attributed to the increase in lending (3.4 percent), which exceeded the growth in bank deposits (0.3 percent).

Figure 13: Loan-to-Deposit Ratio



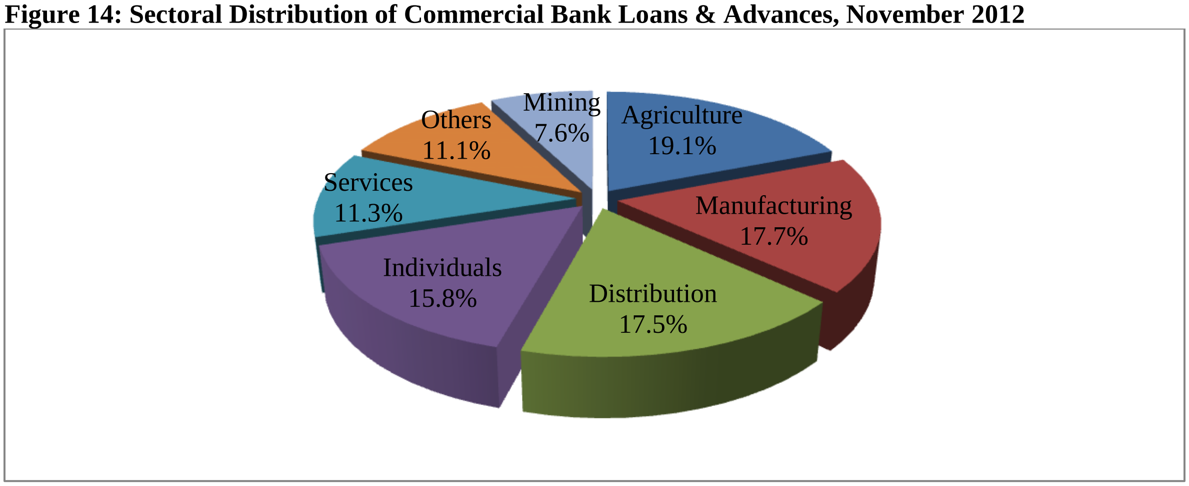
Source: Reserve Bank Zimbabwe

To sustain the prevailing high lending levels, more deposits have to be mobilized as it is difficult to cut on lending, given the need to sustain economic recovery. Productivity enhancement becomes critical in this case.

2.6.5 Composition of Private Sector Credit

The bulk of private sector credit constitutes loans and advances (84.8 percent). Commercial bank loans and advances in November 2012 were distributed as follows (Figure 14): agriculture (19.1 percent); distribution (17.5 percent); manufacturing (17.7 percent); services (11.3 percent); individuals (15.8 percent) and other sectors (8.1 percent).

Figure 14: Sectoral Distribution of Commercial Bank Loans & Advances, November 2012

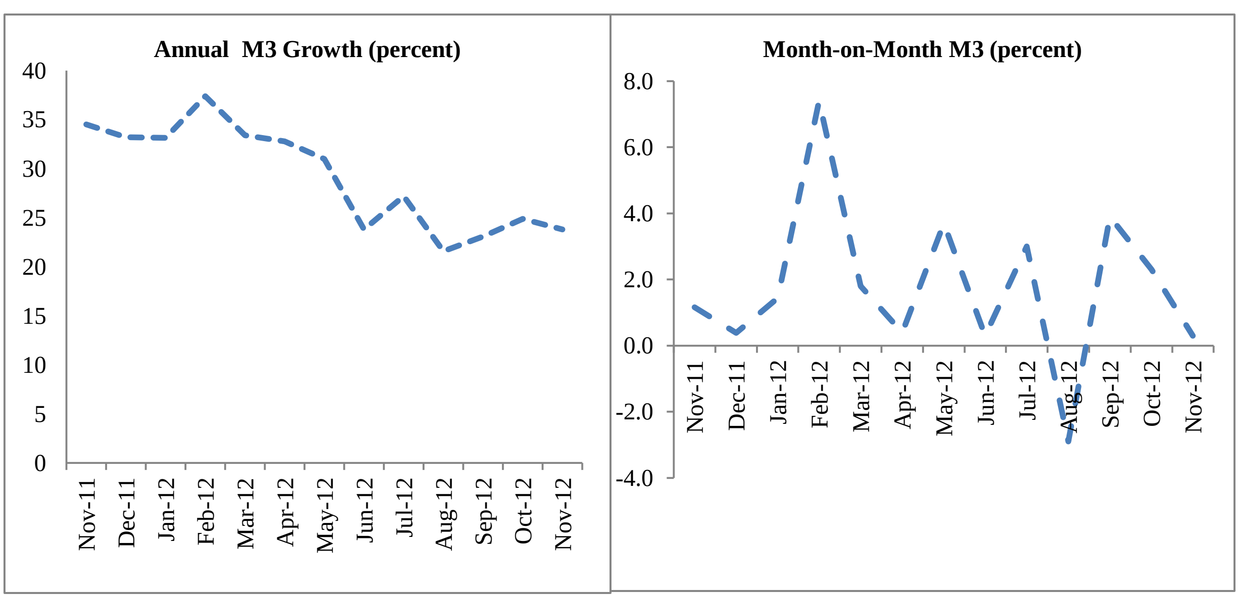


Source: RBZ Monthly Economic Review

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 34.5 percent in November 2011 to 23.8 percent in November 2012 (Figure 15). On a month-on-month basis, M3 growth declined from 2.3 percent in October 2012 to 0.3 percent in November 2012. The decline in M3 growth is unfavourable in an economy facing liquidity challenges.

Figure 15: Broad Money Supply (M3) Growth



Source: RBZ Monthly Economic Review, November 2012

Measures to boost depositor confidence in the banking sector would tap on money circulating outside the formal banking sector. This requires, among others, addressing challenges of high bank charges, low deposit and savings rates.

2.6.7 Interest Rate Developments

In the fourth quarter of 2012, the range in quoted nominal lending rate for both commercial and merchant banks remained considerably wide. The wide range suggests wide variations in cost structures across banks, borrower credit risk profiles and other variables that are considered in determining interest rates.

Table 6: Interest Rate Levels (Percent Per Annum), March 2012-November 2012

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	0.15-08.00
Average		**14.63**	**11.52**		**17.71**	**14.26**		

Source: RBZ Monthly Economic Review, November 2012

Given this outcome, it would be difficult for Fiscal and Monetary authorities to cap lending rates. This is because any rate that they could prescribe is likely to have wide and varying impact on the different banks. In addition, Monetary Authorities have a difficult task of using moral suasion to induce banks to reduce lending rates. The prospect of reducing lending rates to about 10percent per annum where some of the banks that have been lending at 35 percent without addressing the cost of funds is low. Banks have been quick to point out that lending rates are being driven primarily by the cost of funds (especially funds sourced off shore) which the Monetary Authorities have no control over and the operating environment.

The range in 3-month deposit and savings rates is also considerably wide at 4-20 percent and 0.15-08.00 percent, respectively. The wide ranges also suggest wide variations in the capacity to reward depositors and savers across the banks. In this case, capping of rates would also not likely work well as any cap is also likely to have wide varying impact across the different banks. The figures suggest that banks in Zimbabwe are too different in most respects. In this case, the one-size-fits-all type of policies would not be suitable. In this regard, there is need for the authorities to find measures that accommodate the different categories of banks in Zimbabwe.

Table 7: ZETSS, Cheques, Card, Mobile and Internet Transaction Activity (US$ Million)

Month	ZETSS	Cheque Values	Card Values	Mobile & Internet
Aug-2011	2,948.0	5.7	104.2	49.7
Sep-2011	2,984.5	6.0	99.3	55.5
Oct-2011	3,078.0	6.1	113.2	57.7
Nov-2011	3,160.9	5.9	122.0	60.6
Dec-2011	2,892.2	5.0	164.3	58.5
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	**3260.5**	**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

Source: RBZ Monthly Economic Review, November 2012

In the fourth quarter of 2012, there was a general increase in values of transactions carried out through all the electronic payment methods (Table 7). The growth in electronic transactions is commendable because it reduces risk associated with handling cash, eases cash shortages faced by some banks and the problem of change in the retail industry. Cheque transactions declined from US$6.6 million in October 2012 to US$5.9 million in November 2012.

2.7 Stock Market Developments

The fourth quarter of 2012 witnessed the worst performance on ZSE since the beginning of dollarisation in 2009. The quarter was characterised by 486 million shares valued at $90.4 million dollars being traded. It was the only time when the turnover fell below 1.2 billion shares and turnover fell below $100 million during a quarter. The number of shares purchased by foreigners of 50,135,309.76 was also the lowest since 2009.

Table 8: Summary Statistics for ZSE Q4, 2009 - 2012

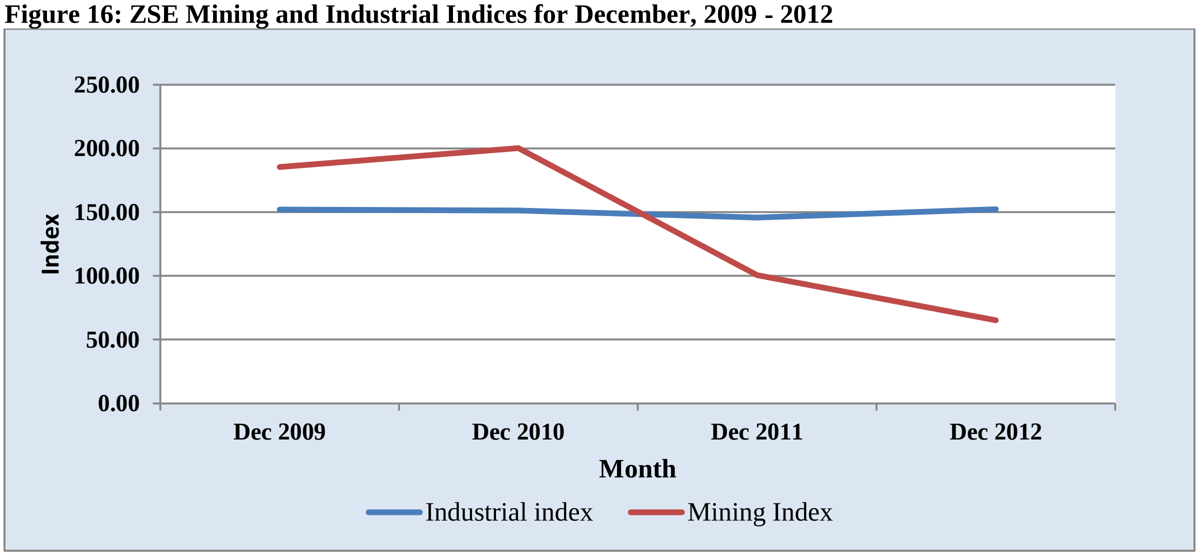
4th Quarter	Turnover Value US$	Turnover Volume	Foreign Bought (US$)	Foreign Sold (US$)	Foreign bought No of Shares	Foreign sold No of Shares
2009	160,238,690.90	1,502,482,540	61,257,750.29	514,109,778.00	-	-
2010	110,038,208.00	1,242,024,096	60,577,174.11	9,890,539.61	157,945,494.00	59,770,930.00
2011	125,144,328.91	1,265,942,172	50,493,938.90	43,233,354.39	107,952,254.00	74,241,521.00
2012	90,374,574.62	486,335,295	50,135,309.76	29,458,009.93	124,664,211.00	148,409,463.00

Source: ZSE 2012

The industrial index averaged at 150 points during the fourth quarter, a development which mirrored the lack of improvement in the manufacturing sector as a result of low capacity utilisation, obsolete equipment as well as challenges associated with the liquidity situation.

The mining index has been consistently on a downward trend, ending 2012 at its lowest level since 2009, at 65.12 points (Figure 16). The trends in the mining and industrial indices summarise the developments in the sectors, which have been reeling from the effects of mixed reactions to, and outcomes of the implementation of the indigenisation policy.

Figure 16: ZSE Mining and Industrial Indices for December, 2009 - 2012

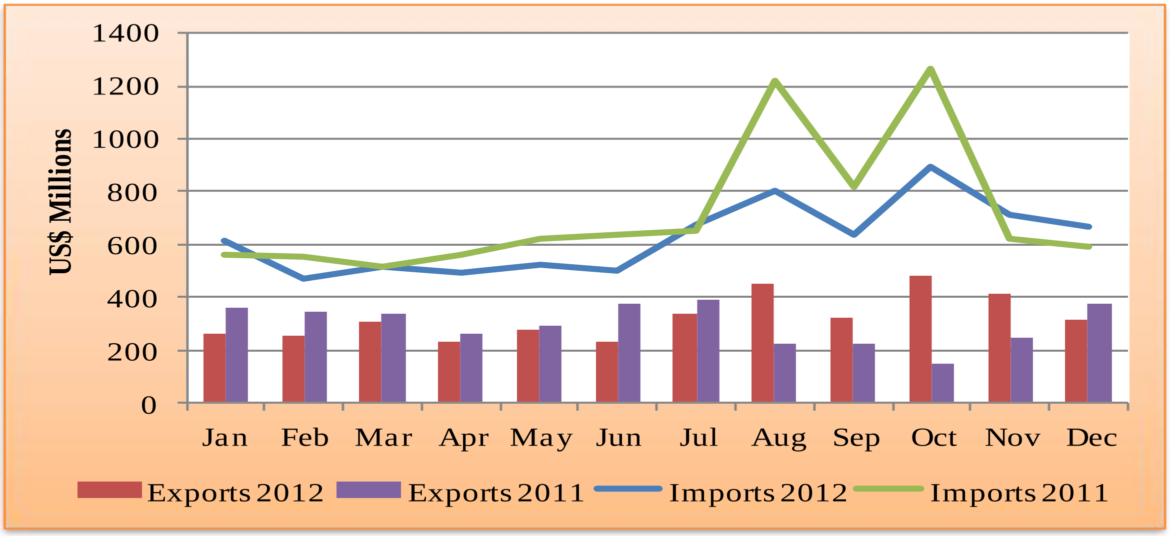


Source: ZSE, 2012

2.8 External Sector Developments

The current account deficit in Zimbabwe is generally fuelled by the underperformance of exports. A look at statistics for both imports and exports for 2011 and 2012 would reveal that although imports have been falling, exports have not been increasing at any significant rate (Figure 17). As a result exports closed the year well below imports, resulting in a sustainably high trade deficit.

Figure 17: Imports and exports, 2011 and 2012



Source: ZIMSTATS

Although imports fell significantly during the period under review compared to the situation in 2011, exports could not increase significantly to close off the trade deficit. Total imports for 2012 were about US$7.5 billion, falling by about 13 percent compared to the same period in 2011. As shown in Figure 17, exports in 2012 were lower than in 2012 for all the months except the three months to November 2012. On the overall however the increase in exports over that period was enough to offset the decrease for the other months, as total exports were US$3.9 billion in 2012, an increase of about 9.17 percent compared to the same period in 2011.

There is need to continue to pursue export oriented reforms. For example, raising the competitiveness and productivity of the agriculture sector would provide a ready market for local manufacturers for value addition at internationally competitive prices. As acknowledged by the Confederation of Zimbabwe Industries (CZI), setting up of an agricultural competitiveness forum, comprising of representatives from farmers and agri-business processors can assist in raising the ante about issues that need to be done to enhance agriculture productivity. This would also be aided by the fact that the basic outlines to some agro-industry clusters already exist, such as the leather and footwear network, the dairy network, grain and milling/bakery network and the cotton textile and clothing network. Enhancing these linkages could easily boost exports.

2.9 Tourism Developments

The Ministry of tourism held a number of activities in the fourth quarter of 2012 chief among them the hosting of the 5th edition of the Sanganai/Hlanganani Travel Expo and the launching of the township tourism. The 2012 edition of the Sanganai/Hlanganani travel expo saw the exhibition space increasing to 5450 squares from 4036 squares in 2011. A total of 85 foreign exhibitors exhibited the 5th edition of the Sanganai/Hlanganani Business Forum. The following challenges were discussed during the Sanganai/Hlanganani Business Forum; lack of long term telecommunication and infrastructure investments, cumbersome processes in acquiring Visa’s by visitors, lack of funding to market Zimbabwe’s tourism products, lack of a national brand, limited resources to assist in stopping veld fires and animal poaching, bad image of the country, negative media publicity and inner-city decay. The Forum emphasised the need for combined effort by all tourism stakeholders to market the country as worthwhile destination

During the Expo, the Civil Aviation Authority of Zimbabwe (CAAZ) gave some updates on the capital projects currently underway. These includes; the rehabilitation of the runway and taxi way at the Harare International Airport, upgrading and connecting the Harare airport water reticulation and sewer line to the main Harare line and up-grading the terminal at the Joshua Mqabuko Nkomo International Airport. Progress on these developments was being mostly hindered by resource constraints.

The government projects the growth of the tourism industry at 3.9 percent and 4 percent for 2012 and 2013 respectively. The achievement of these targets is premised on a number of factors including; the reduction of the negative perception in major source markets, re-investing in uplifting some of the tired tourism facilities and infrastructure. The government has since committed to implement the following measures in order to spur growth in the sector; attract more competitive air lines; engage with other countries for visa realignment methods with flexible visa regime to attract more visitors and continue supporting the establishment of the Tourism Satellites Account System to curb leakages in the tourism industry as it will capture the actual value of inflows into the economy

2.10 Trade Relations Developments

2.10.1 Bilateral Relations

Between 15 and 19 October 2012, Zimbabwe hosted a delegation of officials and business community from South Africa who had flown into the country for the fourth Zimbabwe-South Africa Investment and Trade Initiative. Two workshops and an exhibition were run in Harare and Bulawayo where South African Companies from sectors such as construction, manufacturing, agriculture and processing, mining, and information technology showcased their wares and services. The Initiative seeks to promote trade and investment between the two countries and its third edition was successfully held in March 2012. South Africa remains Zimbabwe's main trading partner although the former is the main beneficiary of trade between the two countries owing to the country's poor economic performance. South Africa highly prioritises Zimbabwe's manufacturing, agriculture and agro-processing, mining, infrastructure, energy, tourism, social services, telecommunications and energy sectors as areas that have high investment potential for its companies.

2.10.2 Regional Relations

COMESA member states held their 16th summit in Uganda from 23-24 November 2012 with a theme: Enhancing intra-COMESA trade through micro, small and medium enterprise development. The member state highly commended the level of COMESA intra-regional trade that had increased to US $18.4 billion by the end of 2011, a sign of recovery from a low intra-regional trade level of US $12.7 billion in 2009 due to the global financial recession. It was highlighted at the summit that micro, small and medium enterprises (MSMEs) play a pivotal role in job and wealth creation in the region. In this regards, the member states, the COMESA Secretariat, the private sector and other partners were called upon to implement projects geared towards capacity building of entrepreneurship and management skills for the MSMEs Member states were implored to eliminate all Non-Tariff Barriers (NTBs) constraining intra-regional trade, in a bid to create easy market access for the MSMEs. It was stressed that member states should strengthen systems and mechanisms for mutual recognition of Technical Barriers to Trade (TBT) and Sanitary and Phytosanitary (SPS) standards and measures. The member states were also urged to continue consolidating the COMESA Free Trade Area by removing all Non-Tariff Barriers(NTBs) using the Tripartite Online Reporting and Monitoring Mechanism. Uganda joined the COMESA free trade area.

2.10.3 International Relations

The 7th Summit of ACP Heads of State and Government was held on 13-14 December 2012 in Sipopo, Equatorial Guinea. Part of the agenda was to map the way forward on the future of ACP trade and development.

Member states noted that despite the fact that the ACP group accounts for 15percent of the world's population, it is marginalised in international trade flows as evidenced by a meagre share of global trade of only 3 percent. They therefore committed themselves to take diversified strategic approaches and policy measures at national, regional, intra-ACP and international levels to enhance their participation in international trade and promote more inclusive development. The group undertook to diversify export markets given the low demand stimulus from traditional markets in developed countries due to the global recession. The member states are cognizant of the fact that they made very limited progress in their efforts to reduce commodity dependence and to diversify their productive capacity. Perpetual dependence on exports of primary agricultural commodities has continually resulted in low processing and limited value-addition in their states. They echoed their decision to reduce commodity dependence by focusing on adding value and higher technological content to their commodity exports as well as diversifying into industrial and services sectors with potential for dynamic growth, high impact on development and more resilient to price fluctuations. Given the small size of the majority of the ACP economies, the group resolved to develop niche markets in the area of organic agricultural products, sustainable or high-value forestry, fishery, tourism, and related transport services, labour services, ICT-related services, and a wide range of creative industries in music, films, and arts. The ACP member states also underscored the need to develop the services sector as it offers opportunities for diversifying production and trade, and has multifaceted linkages with other sectors of the economy, including agriculture and industry. The ACP states further agreed to consider concluding trade agreements like preferential schemes and cooperation arrangements in investment, technology transfer and production measures so as to penetrate new markets and boost and diversify the supply capacities in the ACP states.

They committed themselves to continue developing transport and trade related infrastructure as this will facilitate increased production and trade competitiveness of the ACP states. The group will also tap into the aid for trade initiative under the WTO to channel new and additional funding for trade-related technical assistance and capacity building, into infrastructure development, rehabilitation and upgrading. The group also emphasized the need for the conclusions of the Doha Round of multilateral trade negotiations while fully respecting its development mandate and taking into account the needs and priorities of the economically weaker members, most of them being ACP States. They felt that the Doha Round conclusion would contribute to growth in global trade, prevent protectionist measures, particularly in the advanced economies, and create new opportunities for the ACP states. The member states therefore called on the developed countries to desist from all protectionist measures, including tariff, non-tariff, subsidies and other barriers to trade and to rectify any such measures already taken.

3.0 COMMENTARY ON TOPICAL MATTERS

The recently released Doing Business report in 2013 shows that Zimbabwe has fallen two places, as it is now ranked 172 from 170 in 2012. On other indicators (Table 9), the country had mixed results. Notable improvements were in starting a business in which the country moved 2 places up to position 143 from 145 in the previous year 2011, whilst getting electricity rose to 157 from position 165, and trading across borders the country moved 5 places up to 167. However, on the other hand, the country moved downwards in resolving contracts by falling 14 places to position 169, and paying taxes also declined significantly by 7 places to 134.

Cement manufacturing company PPC agreed to fully comply with the Indigenisation and Economic Empowerment Act. Currently local investors currently hold 21.4 percent. PPC has agreed to allocate 29.6 percent stake to ordinary Zimbabweans. This will be distributed as follows; 10 percent to the Gwanda and Umguza community share ownership scheme, 5 percent stake to an employee ownership trust, 4.9 percent to a local indigenous special-purpose vehicle and 9.7 percent to the National Indigenisation Economic Empowerment Fund. This will amount to 51 percent stake being owned by Zimbabweans.

Table 9: Doing business indicators for Zimbabwe, 2013 and 2012

	Doing Business 2013 Rank	Doing Business 2012 Rank	Change in Rank
Starting a Business	143	145	2
Dealing with Construction Permits	170	169	-1
Getting Electricity	157	165	8
Registering Property	85	84	-1
Getting Credit	129	127	-2
Protecting Investors	128	124	-4
Paying Taxes	134	127	-7
Trading Across Borders	167	172	5
Enforcing Contracts	111	112	1
Resolving Insolvency	169	155	-14

The Zimbabwe Statistical Agency (ZIMSTAT) released the 2012 Census preliminary report which showed that Zimbabwe's population stood at 12.97 million people with an average household size stood of 4.2 persons per household. The report also showed that the average annual intercensal (2002 to 2012) growth rate was 1.1 percent, whilst the overall sex ratio was 93 males per every 100 females. Meanwhile, population distribution by province stood as follows; Harare Province had the largest population distribution of 16percent followed by Manicaland and Midlands's province with 14 and 13percent respectively whilst the provinces with the lowest distribution were Bulawayo and Matabeleland South Provinces which stood at

5percent each. With a land area of 390 757 square kilometres, Zimbabwe's has a population density of 33 persons per square kilometre according to the preliminary report.

The Zambezi River Authority (ZRA) has invited bids from prospective developers and designers interested in the development of the Batoka George projects. This follows the signing of a Memorandum of Understanding (MoU) to jointly construct the Batoka hydro-power project between Zimbabwe and Zambia. The project estimated to be valued at U$4 billion is expected to be on a Build Operate Transfer (BOT) basis, and will include the construction of a dam and a hydro power plant on the Zambezi River. The Batoka George project, when completed is expected to generate 1 600 megawatts to be shared equally between Zimbabwe and Zambia.

4.0 CONCLUSION

Mixed economic developments in the country call for the need for all stakeholders to put up concerted efforts to resolve some of the economic challenges facing the country. Given our poor standing in the world doing business rating, shows that the country still have to do a lot to improve the business operating investment and also the quest for attracting investors. It is imperative that the upcoming referendum on the constitution and the elections are peaceful so that the economy continues on growth path and manufacturing can be able to attract much needed foreign investment.