

The ZEPARU Economic Barometer

Special Edition



ZIMBABWE ECONOMIC
POLICY ANALYSIS AND
RESEARCH UNIT



Volume 18

Acknowledgements

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Summary

The Economic Barometer contains original analysis in the form of both ZEPARU's inflation forecasting data and composite leading indicators index (CLI). This new revised and improved ZEPARU Economic Barometer sets out the key economic data for Zimbabwe, predominantly covering the period July to September 2015. It is an easy to access compendium of information for anyone interested in the Zimbabwean economy. The key economic data in this edition of the Economic Barometer includes:

Global & Regional Economic Developments:

- Growth in advanced economies is expected to pick up slightly while in emerging and developing economies, including Sub-Saharan Africa, it is expected to slow down.
 - The slow down in growth in the Sub-Saharan Africa region, projected to fall from 5% in 2014 to 3.8%, is also likely to be mirrored in Zimbabwe.
- International commodity prices have experienced significant fall, largely as a result of falling Chinese demand. In some cases the fall had been dramatic: platinum has lost close to a third of its value in a year.
 - The implications of depressed international prices on Zimbabwe include reduced profit levels for companies and reduced revenue for government.
 - They have also adversely affected the country's liquidity position, given that exports are the main source of liquidity.
 - Falling prices for Brent crude oil, maize and wheat have, however, benefited the economy as Zimbabwe is a net importer of these products.

Major Zimbabwe Economic Trends:

- In the eight months to August 2015 the government's fiscal position deteriorated, as revenue collection was lower than expected as a result of depressed economic activities.
- Inflation during the third quarter continued falling, to -3.11% in September 2015. Based on its inflation forecasting model - ZEPARU projects year on year inflation in December to have risen by 1.24 percentage points from the September 2015 level.
- The ZEPARU composite leading indicators index (CLI) shows that economic activity has been deteriorating over the period November 2014 up to July 2015.

- This has been driven in particular by the decline in the imports of intermediate goods, tight liquidity conditions, the continued decline in the prices of precious metals, declining pay-as-you-earn tax receipts and poor performance of the stock market.
- ZEPARU recommends the following in response to the major economic trends:
 - Policy measures that promote export growth, remittances, efficient import substitution and foreign direct investment.
 - Measures to rationalize expenditure, especially minimizing employment costs and reforming the procurement system.

Important Economic Sectors:

- There are serious concerns about food security as food production in Zimbabwe is under threat due to the looming El Nino. This comes on the back of the poor 2014/15 harvest.
- Tobacco sales fell by 14% from US\$685.2 million realised last year. Further fall in tobacco production is anticipated as shown by the low seed sales and a decline in farmers who registered to grow the crop in the coming season.
- ZEPARU recommends the following based on economic sector developments:
 - There is an urgent need to grow drought resistant crops or early yielding varieties.
 - Rehabilitation of silted dams across the country and revamping irrigation schemes.
- In the manufacturing sector, there is evidence that temporary protection offered to some sectors appear to have had a positive impact on boosting local production, although firms remain vulnerable to competition from the region.
- In tourism, during the first half of 2015 Zimbabwe



recorded a decline in tourist arrivals from overseas markets.

- Mineral earnings (excluding diamonds) registered an 11% decrease, owing to a decline in international commodity prices, demonstrating the importance of value addition and beneficiation to hedge against volatile global prices which negatively impact on fiscal revenue.
- By September 2015, exports had fallen by about 16.5% from the value of US\$247.4 million recorded in January 2015. Over the same period, imports increased by about 9.5% to about US\$502 million by September 2015.

In addition to summarising the important economic data each edition of the new Economic Barometer will also explore some topical issues in detail. Included in this edition are two 'special features', addressing two important issues for the country's future.

Special Feature Number 1: Enhancing Export Competitiveness

- Zimbabwe's exports, which are the main source of liquidity, have generally been declining since 2013.
- During the first nine months of 2015, exports declined significantly by about 20.8% compared to the same period in 2014, to about US\$1.72 billion.
- ZEPARU suggests that the following measures would
 - Prioritising value addition, introducing innovative export incentives, reducing regulatory costs such as licensing and streamlining the number of procedures exporters need to comply with:

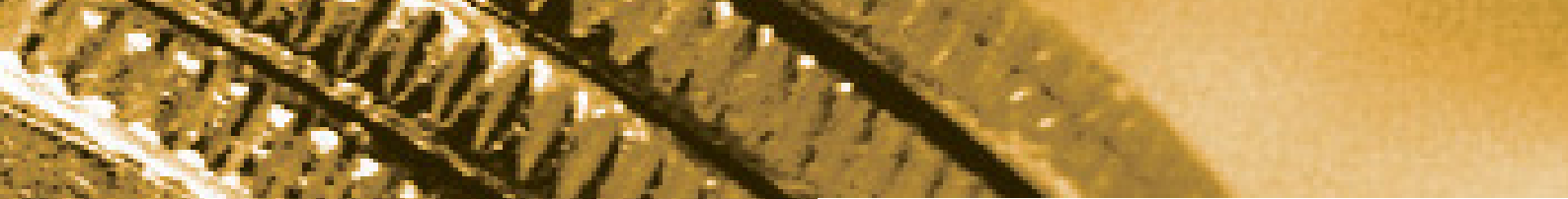
Special Feature Number 2: Fiscal Rules

- One way of ensuring predictability and consistency in policy is through designing and implementation of properly contextualized fiscal rules.
- In the run up to the 2016 National budget ZEPARU recommends the following fiscal rules:
 - A debt rule that limits the total stock of public debt for central Government to below 70% of GDP.
 - An expenditure rule that specifies a minimum percentage of the budget that goes towards development spending.
 - A budget balance rule for the overall fiscal balance to be balanced or in surplus.
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 - A budget balance rule for the overall fiscal balance to be balanced or in surplus.



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1.1 World Economic Outlook Summary

While growth in advanced economies is expected to pick up slightly, it is expected to slow down in emerging and developing economies. In China, growth rates remain just below 7%, which represents a significant slowdown. This has important implications for Zimbabwe – for example in relation to commodity prices. The growth prospects for African countries vary depending on whether they are oil importers or exporters and depending on how exposed they are to falling commodity prices.

Global economic growth for 2015 is projected to be 3.1%, which is 0.3 percentage points lower than in 2014 and 0.2 percentage points below the July 2015 World Economic Outlook forecast. This is a result of a slowdown in emerging markets, and a weaker recovery in advanced economies than previously expected. However, global activity is projected to gather some pace and rise to 3.6% in 2016 (Table 1).

Looking in more detail at advanced economies, growth is expected to pick up slightly from 1.8% in 2014 to 2% in 2015 and rise further to 2.2% in 2016. In the United States growth is projected to reach 2.6% in 2015 and rise to 2.8% in 2016. A moderate recovery is projected in the Euro Area where an increase in economic growth of 1.6% is expected in 2016 – sustained by lower oil prices, monetary easing and the euro depreciation – is expected.

In emerging markets and developing economies, economic growth is projected to decline from 4.6% in 2014 to 4% in 2015, then rise to 4.5% in 2016. The slowdown of the Chinese economy has attracted particular attention. In the third quarter of 2015 it grew at an annual rate of 6.9%, a slight reduction from the previous quarter when growth was 7%. These figures contrast with an average annual growth rate of 10.88% between 1989 and 2015¹. Reasons for this slowdown include slowing investment growth, contracting imports, and weaker than expected exports. The ongoing implementation of structural reforms and lower oil and other commodity prices are, however, expected to expand consumption, partly buffering the Chinese slowdown in 2016.

Table 1: Overview of the World Economic Outlook projections (percentages), 2013 - 2016

	2013	2014	2015	2016
World Output	3.3	3.4	3.1	3.6
Advanced Economies	1.1	1.8	2.0	2.2
United States	1.5	2.4	2.6	2.8
Euro Area	-0.3	0.9	1.5	1.6
Emerging Markets & Developing Economies	5.0	4.6	4.0	4.5
Middle East & North Africa	2.3	2.7	2.5	3.9
Sub Saharan Africa	5.2	5.0	3.8	4.3

Source: International Monetary Fund, World Economic Outlook Update, October 2015

¹ See <http://www.tradingeconomics.com/china/gdp-growth-annual>

Growth in *Middle East* and *North Africa* is forecast to decline from 2.7% in 2014 to 2.5% in 2015. This reflects the impact of both regional conflicts and social tensions on economic confidence. Low oil prices are also taking a toll on the outlook for oil exporters in the region. Regional growth is expected to pick up substantially from 2.5% in 2015 to 3.9% in 2016, supported by accelerated activity in the Islamic Republic of Iran, after the lifting of sanctions.

In *Sub-Saharan Africa*, growth is expected to slow down this year to 3.8% from 5% in 2014. This is the result of three key factors: first, declining commodity prices, particularly oil; second, lower demand from China, which remains the largest single trading partner for Sub-Saharan Africa; and third, the tightening of the global financial conditions. The impact of wider global economic changes is different in different parts of Sub-Saharan Africa:

- Among oil exporters – primarily Nigeria and Angola – growth is projected to slow down.
- For oil importers, growth is expected to increase: countries such as Côte d'Ivoire, the Democratic Republic of the Congo, Ethiopia, Mozambique and Tanzania are still expected to register growth of approximately 7% or above this year.

- Countries which rely heavily on one export have also been hit hard: both Sierra Leone and Zambia are feeling the pinch from lower prices for their main export commodity.
- South Africa's growth is projected to be below 1.5% both this year and next year, reflecting electricity-load shedding and other supply bottlenecks.

Implications for Zimbabwe:

The Chinese slowdown and only modest global economic growth are likely to continue to hold down commodity prices. This will have implications for Zimbabwean export earnings. The slowdown in growth in the Africa region is also likely to be mirrored in Zimbabwe. In addition to the impact of falling commodity prices, Zimbabwe is still reeling from fiscal space constraints and the power challenges being experienced in the country.

1.2 International Commodity Prices

Summary

Commodity prices have experienced significant falls, largely as a result of falling Chinese demand. The major Zimbabwean exports of metals – gold, platinum and nickel ores – have seen prices fall on international markets. In some cases the falls have been dramatic: platinum has lost close to a third of its value in a year.

1.2.1 Precious Metals

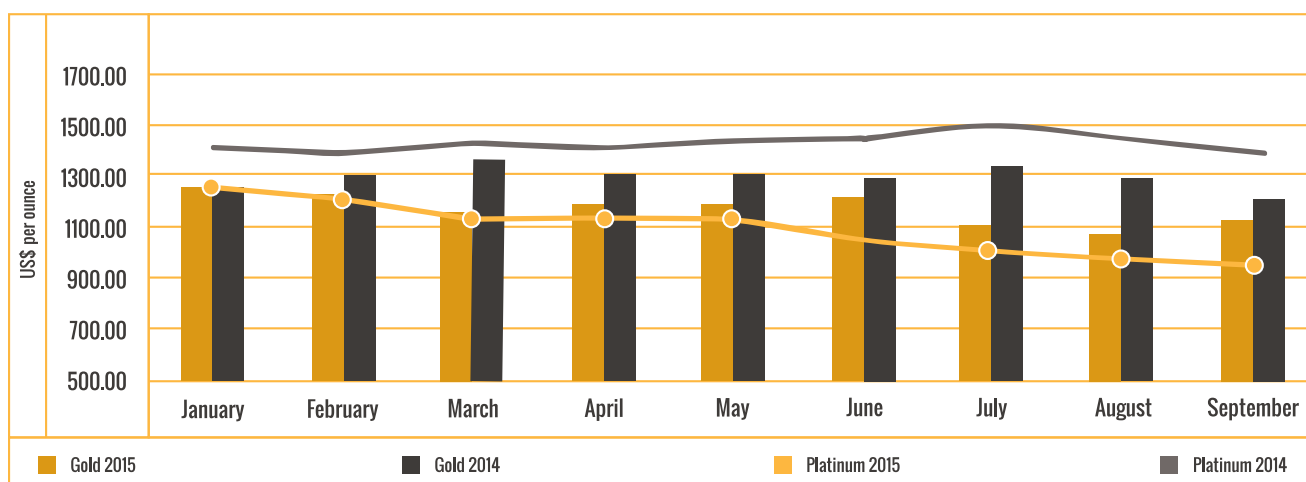
The precious metals prices continued to be subdued in the third quarter of 2015 when compared to a similar period in 2014. The movements in gold and platinum prices were as follows:

Gold

With a share in total exports of around 15%, gold plays a major role in the trade balance of Zimbabwe. Gold lost 12.3% of value and averaged US\$1,124 per ounce in the

third quarter compared to the corresponding period last year (Figure 1). The fall in gold price was the result of both the strong performance of the US dollar (which is an alternative investment to gold and thus reduced demand for gold) and the Chinese slowdown (China is one of the leading consumers of gold). A continued strengthening of the US dollar is likely to lead to further falls in the gold price by the end of 2015.

Figure 1: Monthly average prices for gold and platinum, January - September 2014 and 2015



Source: World Bank

Platinum

The platinum price declined by 31.2% to average US\$986 per ounce in the third quarter of 2015 compared to the third quarter of 2014 (Figure 1). Platinum prices were affected by increased production in South Africa and the Volkswagen emissions scandal, which brought about fears of reduced demand. The Chinese slowdown has also played an important role. In the fourth quarter the decline in platinum price is expected to continue due to reduced investment demand and excess supplies.

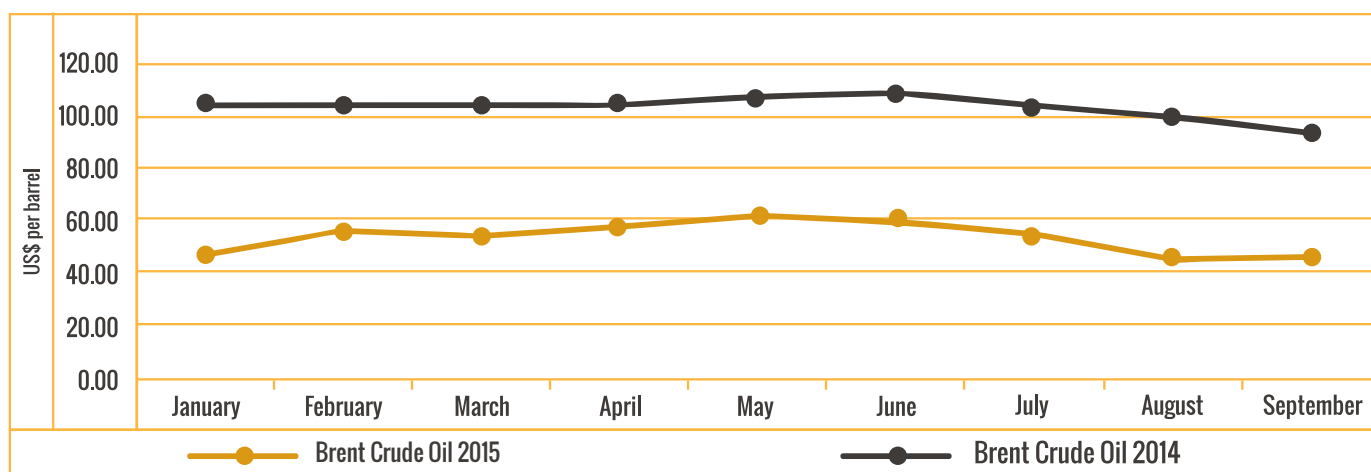
The price of platinum declined by 31.2%

Generally, most of the metal prices which are exported in significantly high volumes such as nickel and ferro-chrome, also registered a decline in prices. For example, during the nine months to September 2015, nickel traded at an average price of US\$12,676 per metric tonne, a decline of 26.5% compared to the average price recorded over the comparable period in 2014.

Implications for Zimbabwe:

The implications of depressed international prices are being felt through both reduced profit levels for local mining companies and the risk of reduced revenue for government. For example, Zimplats, a leading platinum producer in the country, reported a loss of US\$74 million in 2015, citing lower sales volumes and depressed prices as some of the limiting factors. In addition falling prices will reduce exports, earnings resulting in a loss of foreign currency inflows and a higher current account deficit. This will affect the money supply in Zimbabwe.

Figure 2: Brent Crude Oil Prices January - September 2014-2015 (monthly averages)



Source: World Bank

1.2.2 Brent Crude Oil

Petroleum constitutes, about 23% of total imports to Zimbabwe. This makes it the most important import good. The world market price of petroleum oil follows the price of Brent crude oil which was averaging US\$50.03 across the period from a quarterly average of US\$102.8 per barrel in 2014. Month to month changes show that Brent crude oil decreased from an average of US\$55.90 per barrel in July 2015 to US\$47 in August before marginally increasing to US\$47.20 in September (Figure 2). In the next quarter, Brent crude oil is likely to fall due to expected continual oversupply in the market.

Implications for Zimbabwe:

Local retail fuel prices were on the decline from mid-August 2015, following the fall in international prices as well as government intervention. This is potentially positive for the Zimbabwean economy. To ensure that consumers benefit, the government introduced a new fuel pricing formula that allows wholesalers and retailers a mark-up of 6 cents per litre, as compared to the old framework, which allowed a 7% mark-up.

1.2.3 Wheat and Maize

While wheat and maize represented less than 4% of Zimbabwean imports in 2014, given the current pressure on food security it is important to understand what is happening in these world markets.

During the third quarter of 2015, the wheat price declined from an average of US\$197 in July to US\$173 per tonne in September 2015 (Table 2). Expectations of ample world supplies in 2015/16 and seasonal harvest pressures in the northern hemisphere underpinned this decline. Compared to 2014, wheat prices in 2015 are very subdued, averaging US\$183 for the entire third quarter of 2015 compared with US\$262 per tonne for the corresponding

period in 2014. Wheat prices are expected to remain subdued in the next quarter because of expectations of favourable supplies in 2015/16.

Abundant world supplies continued to hold down maize prices in the third quarter of 2015, compared to same period in 2014. The quarterly average was US\$169, whereas for same period in 2014 it averaged US\$174 per tonne. The maize price is likely to continue to fall in the next quarter, as there are projections of abundant supplies for the 2015/16 season.

Table 2: Wheat and Maize Monthly Average Prices for January-June 2014 and 2015

	Maize US 3YC, Gulf		Wheat US HRW, Gulf	
	2015	2014	2015	2014
January	174.71	198.06	248.46	275.53
February	173.70	209.32	237.15	292.27
March	174.23	222.33	230.83	323.55
April	172.05	222.36	223.35	324.93
May	166.29	217.30	215.15	334.75
June	166.72	202.39	209.87	306.53
July	179.60	182.73	197.40	280.36
August	162.60	176.42	179.80	263.41
September	165.60	163.06	172.70	243.72

Source: World Bank

Implications for Zimbabwe:

The low wheat prices are beneficial to Zimbabwe as a net wheat importer. Local producers are expecting to supply only 32,000 tonnes from the winter wheat crop, which falls far short of the national requirements of 400,000 tonnes. The depressed maize prices on the international market

provide relief to Zimbabwe as maize production has declined by over 40%. The impact of the 2014/15 drought on productivity was a decline from 0.85 tonnes per hectare achieved in 2013/14 to only 0.48 tonnes per hectare in 2014/15. The country needs to import 700,000 tonnes of maize to meet the requirements of 1,4 million tonnes.

2.1. ZEPARU Composite Leading Indicators

ZEPARU has constructed a composite leading indicators index (CLI), whose purpose is to indicate the direction of economic activity. It gives an early signal to the turning points in economic activity. This is important in the sense that policy makers can put in place measures to address possible adverse developments in economic activity in advance.

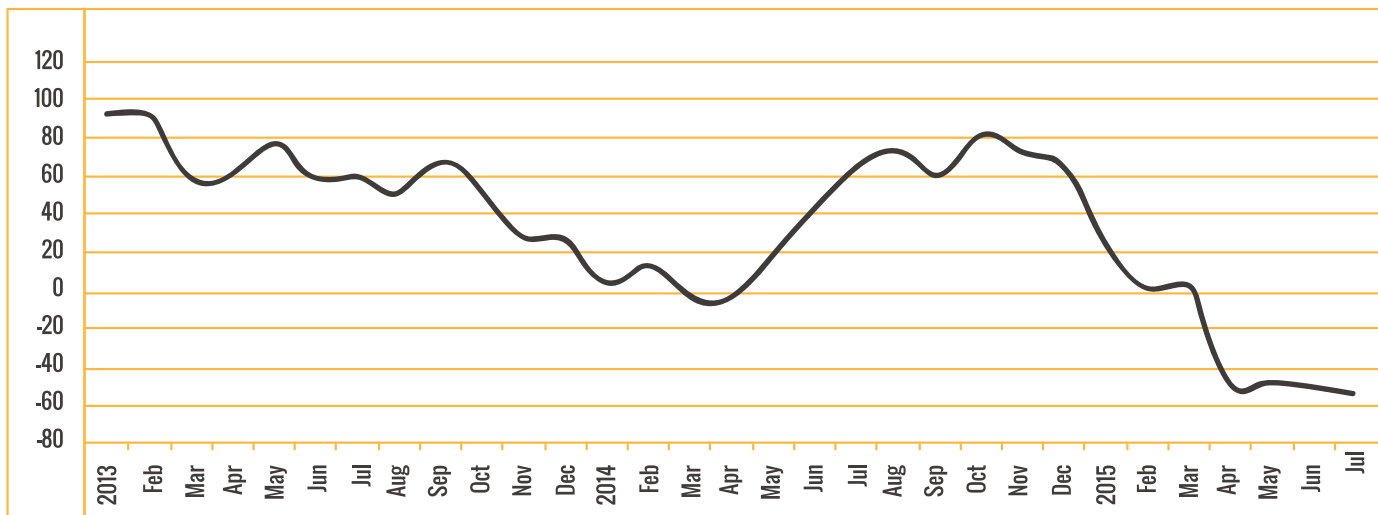
The CLI is composed from a set of carefully selected economic variables whose composite provides a signal of future turning points of economic activity. These variables include the Zimbabwe Stock Exchange industrial index; broad money supply (M3²); imports of intermediate goods; precious metal (gold and platinum) prices; pay-as-you-earn (PAYE); volume of manufacturing index (VMI); interest rates and inflation levels (Figure 3). 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. ZEPARU is currently updating the CLI to reflect recent data published by ZIMSTAT.

In terms of interpretation of the CLI index, its absolute level does not have any meaning but interpretation focuses on changes in its level 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).

The ZEPARU CLI index shows that economic activity has been deteriorating over the period January 2013 up to April 2014 and started recovering over the period May to October 2014 before deteriorating again over the period November 2014 up to July 2015 (Figure 3).

Figure 3: ZEPARU Composite Leading Indicators index (CLI)

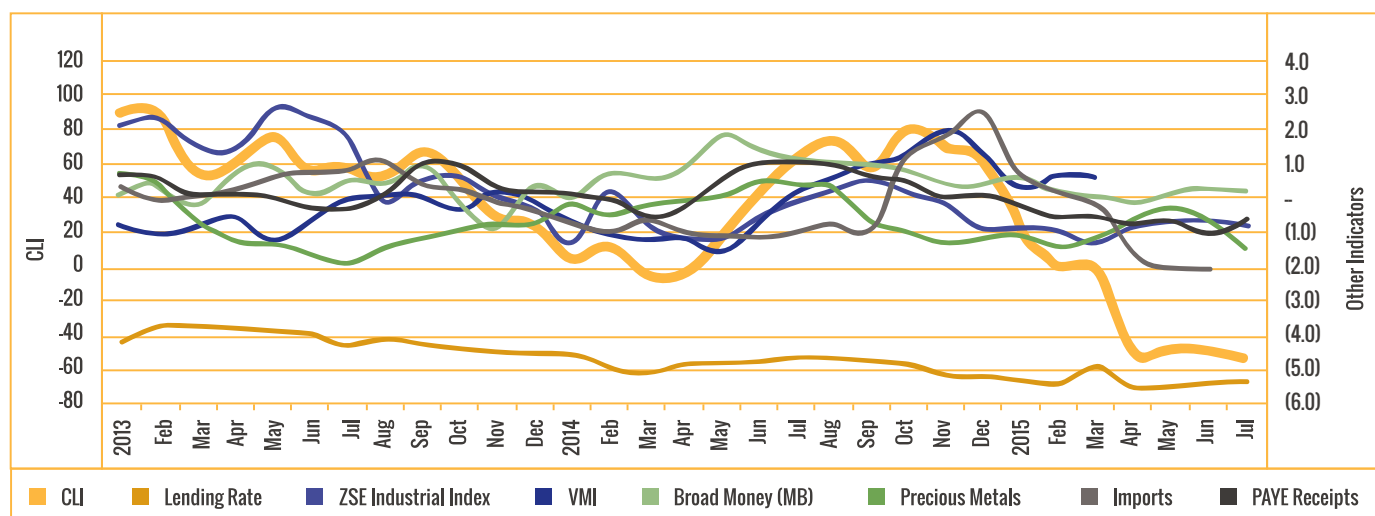


Looking at the individual components of the ZEPARU CLI index (Figure 4) shows that the recent economic slowdown is underpinned by a number of factors:

- The decline in the imports of intermediate goods which are used in production of manufactured goods (this is also reflected in the decline of the volume of manufacturing index).
- Tight liquidity conditions – which have manifested in decelerating money supply growth and high interest rates – have continued to depress economic activity through limiting consumption and investment.
- The continued decline in the prices of precious metals has also affected economic activity through adverse effects on the contribution of the mining sector to the economy.
- PAYE receipts have declined, partly indicating the recent job losses which were triggered by the High Court judgement which gave the green light to employers to fire employees on three months' notice.
- The ZSE Industrial index has also been declining, generally showing negative investors' sentiments about the economy (see Box 2 for further details).

² Broad money supply (MB) is defined as total banking sector deposits net of inter-bank deposits.

Figure 4: ZEPARU Composite Leading Indicators index (CLI) and its components



Policy measures that promote export growth, remittance inflows, efficient import substitution and foreign direct investment, among others, would help boost money supply growth, create jobs and increase domestic demand for goods and services.

2.2 Fiscal Policy Developments

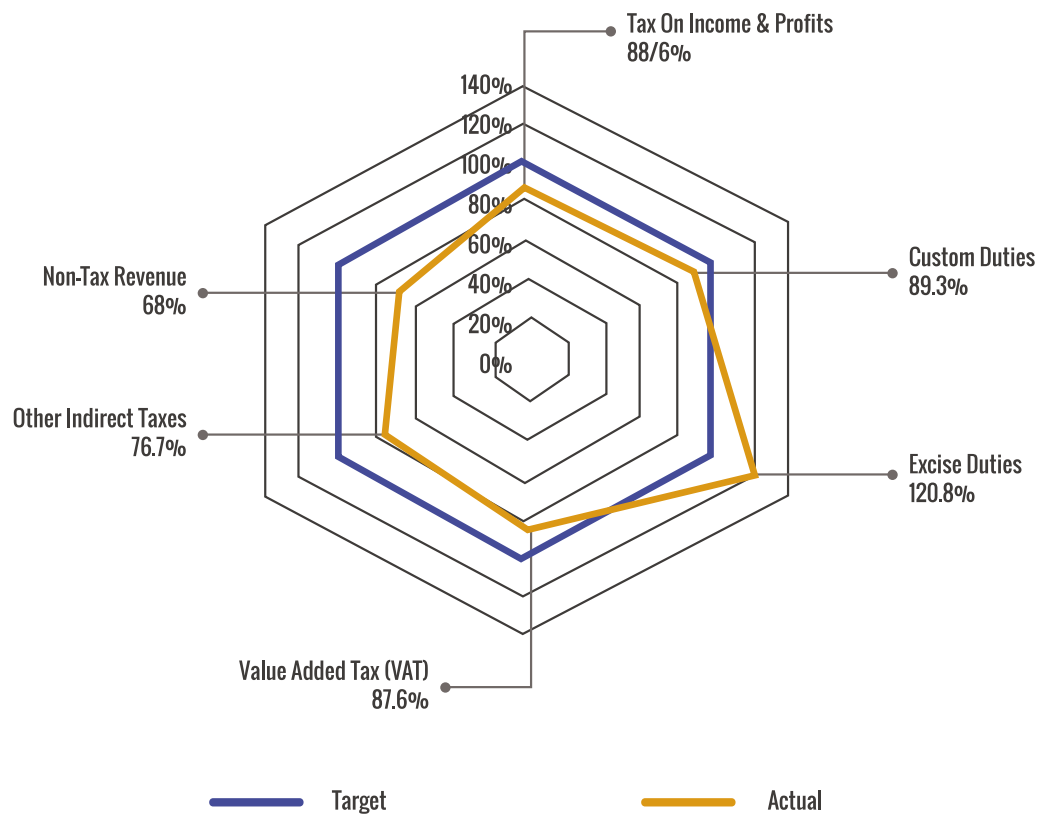
Summary

In the eight months to August 2015 the government's fiscal position has deteriorated further. Revenue collection was lower than expected as the base continues to shrink as a result of depressed economic activities (the one exception is excise duties which continue to be buoyed by duty on fuel and tobacco products). Expenditure ran ahead of target and the government incurred a budget deficit of US\$240 million.

Total government revenue for the eight months to August 2015 amounted to US\$2.3 billion. This means it fell short of the government's target by US\$208.13 million (8.3%). Figure 5 shows how performance of the various 'revenue heads' – sources of government revenue – was lower than expected. The only exception was excise duty, which surpassed targets by 20.8%. This was largely the result of increased collections from duty on fuel, tobacco products and alcoholic beverages.

Also of concern is the fact that revenue collection by government appears to be getting worse. Compared to the cumulative total government revenue for the eight months to August 2014, revenue collections in 2015 underperformed by about 4.22%. However, this is not surprising in the context of low capacity utilization in the economy, company closures and depressed consumer demand.

Figure 5: Performance of revenue heads for the eight months to August 2015 (percentage of target)



Source: Ministry of Finance

On the other hand, actual government expenditure and net lending for the eight months to August 2015 was 25% above its target of US\$2.19 billion. Recurrent expenditure, which accounted for 93.9% of total government expenditure, exceeded its target by 16.4%. The total government expenditure and net lending for the eight months to August 2015 amounted to US\$2.54 billion against revenues of US\$2.3 billion resulting in a budgetary deficit of US\$240 million. This was partly financed by a combination of both the previous period's surplus and also domestic loans and treasury bills (valued at US\$171.31 million). The main reasons for government spending overshooting targets were:

- Employment costs, which exceeded target by 15.8%
- Maintenance works and capital works, which exceeded target by 23.3%
- Foreign travel expenses, which exceeded target by 237.8%.

Inflation remains negative and is likely to continue to be so due to the appreciation of the US dollar against the South African rand, tight liquidity conditions and weak consumer demand. However, ZEPARU projects that in the fourth quarter of 2015 both year on year and monthly inflation will deviate from its downward trend, with moderate increases predicted.

Foreign travel expenses exceeded target by 237.8%

2.3 Inflation Developments

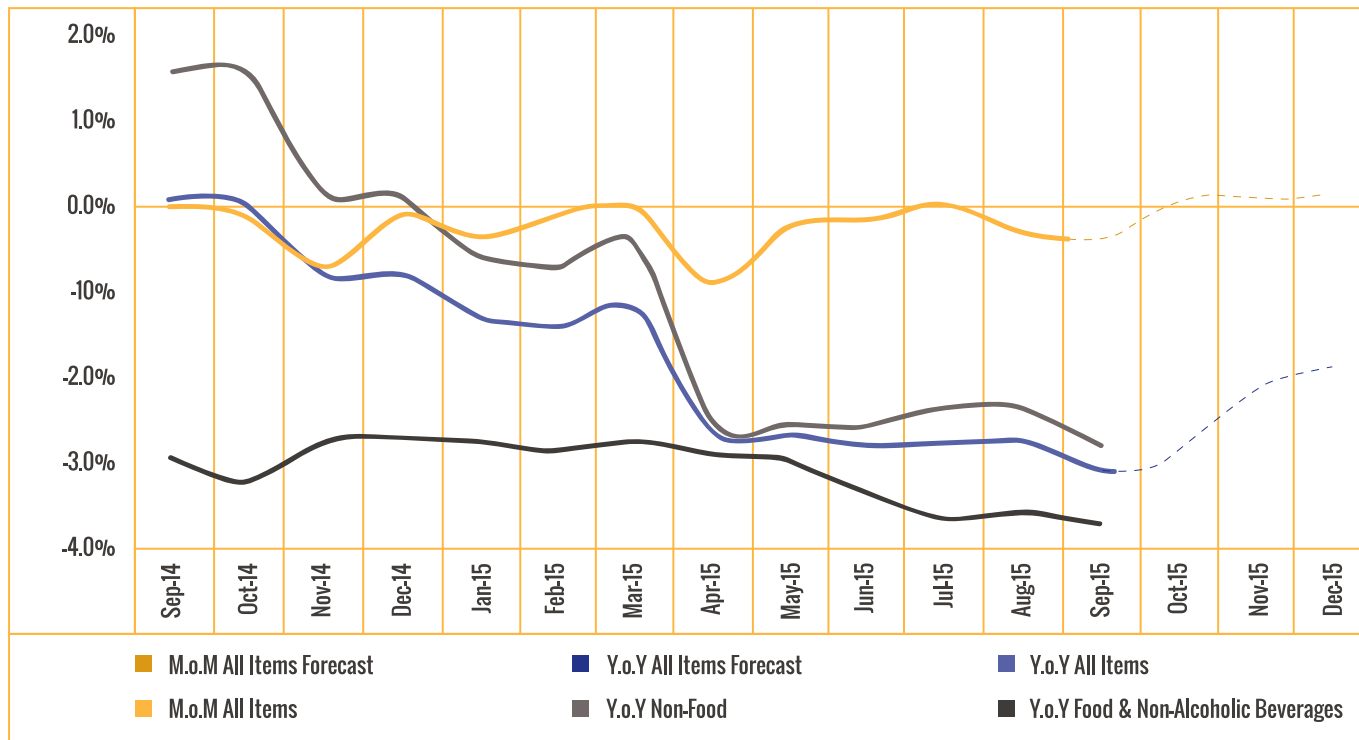
Summary

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Figure 6 shows the trends in both year on year and month on month inflation rates:

- In July the year on year inflation rate was -2.77%: by the September it had fallen to -3.11%.
- Year on year food and non-alcoholic beverages inflation and non-food inflation rates for September stood at -3.72% and -2.28% respectively.
- Monthly inflation over the quarter fell from 0.06% in July to -0.36% in September.

Figure 6: Past trend and projections for annual and monthly inflation, September 2014 - December 2015



Source: ZIMSTAT (2015), ZEPARU inflation forecasting model

The decline in inflation since the beginning of the year was underpinned by tight liquidity conditions, weak consumer demand and the appreciation of the US\$ against the currencies of Zimbabwe’s major trading partners (especially the South African rand). Which continues to be an issue of major concern. Significant deflation potentially has several negative effects on the Zimbabwean economy: consumption and investment demand could weaken further as real debt burdens increase; households anticipate further price reductions and firms face higher real interest rates. In addition, nominal wage rigidities may reduce profit margins for domestic firms putting a drag on domestic production.

ZEPARU’s inflation projections

ZEPARU has developed a model to project future inflation trends, based on the past inflation trends.³ The model projects that in the fourth quarter of 2015 both year-on-year and monthly inflation will deviate from its downward trend, rising by 1.24 percentage points and 0.50 percentage points respectively from the levels recorded in September 2015. Thus year on year inflation is projected at -1.87% in December 2015 while month on month inflation is projected at 0.14%. The projected inflation is shown in Figure 6 (the dotted part of the graphs).

The government has taken action to tackle deflation. For example, it has put in place measures to reduce imports by removing basic goods from the travellers’ rebate and banning the importation of second hand clothing and shoes. This is likely to impose some level of upward pressure on inflation rate, as these were exerting high level of competition on domestic producers. However, they are unlikely to be sufficient to ensure year-on-year inflation moves into positive territory.

ZEPARU projects -1.87% inflation in December 2015

³ The method used is an ARMA (2,1) which has been contextualized to the Zimbabwe context.

Box 1: Regional economic trends in inflation: January – September 2015

Malawi has an exceptionally high quarterly average inflation rate of 23.1%, and Zimbabwe has deflation. Other countries, with the exception of Botswana, experienced increases in inflation in the third quarter, although Seychelles, Botswana, Namibia, Mozambique, Mauritius and Zimbabwe recorded inflation below the 5% regional target.

Malawi's high and rising inflation rate is attributed to the rise in food prices and weakening of the kwacha. Angola's quarterly average inflation rate increased from an average of 8.9% in the second quarter to 11.1% in the third quarter due to the reduced fuel subsidies and a depreciation of the kwanza. South Africa's average quarterly inflation rate increased from 4.6% in the second quarter to 4.7% in the third quarter as the rand continues to weaken. Zambia's inflation increased slightly from a quarterly average of 7.1% in the second quarter to an average of 7.4% in the third quarter owing to price increases in both food items and non-food items. Mozambique and Mauritius' quarterly average inflation increased from 1.5% and 1% in the second quarter to 2.2% and 1.2% respectively in the third quarter due to higher food prices.

Table 3: Trend in Southern African Development Community region annual inflation, January 2015-September 2015

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sept-15	Q1 Ave.	Q2 Ave.	Q3 Ave.
Malawi	21.2	19.7	18.2	18.8	19.5	21.3	22.2	23.0	24.1	19.7	19.8	23.1
Angola	7.4	7.7	7.9	8.2	8.9	9.6	10.4	11.1	11.7	7.7	8.9	11.1
South Africa	4.4	3.9	4.0	4.5	4.6	4.7	5.0	4.6	4.6	4.1	4.6	4.7
Zambia	7.7	7.4	7.2	7.2	6.9	7.1	7.1	7.3	7.7	7.4	7.1	7.4
Tanzania	4.0	4.2	4.3	4.5	5.3	6.1	6.4	6.4	6.1	4.2	5.3	6.3
Seychelles	2.9	3.7	5.8	3.7	4.0	4.3	4.2	4.6	4.5	4.1	4.0	4.4
Botswana	3.6	2.8	2.8	3.1	3.0	3.1	3.1	3.0	2.9	3.1	3.1	3.0
Namibia	4.4	3.6	3.4	2.9	3.1	3.1	3.3	3.4	3.3	3.8	3.0	3.3
Mozambique	2.8	3.9	3.1	1.9	1.3	1.4	1.5	2.3	2.7	3.3	1.5	2.2
Mauritius	0.7	2.0	2.2	2.1	0.5	0.4	0.6	1.1	2	1.6	1.0	1.2
Zimbabwe	(1.3)	(1.4)	(1.2)	(2.7)	(2.7)	(2.8)	(2.8)	(2.7)	(3.1)	(1.3)	(2.7)	(2.9)

Source: Trading Economics/ZIMSTAT

Summary

Interest rates have generally been higher in the last quarter compared to the previous year. At the same time the demand for credit has increased, largely as a result of government borrowing. Rising corporate interest rates are the result of strong credit growth against weakening money supply growth. The Zimbabwean Stock Exchange has experienced one of its worst performances in recent years.

3.1 Interest Rates

The real weighted lending rates for both corporates and individuals have generally been higher in 2015 than 2014. Figure 7 highlights the period January to July for each year. In 2015, the lending rates for corporates have been higher, which is likely to be associated with very strong growth in real credit demand. On the other hand, lending rates for individuals slightly declined in June and July 2015 after higher levels in April and May.

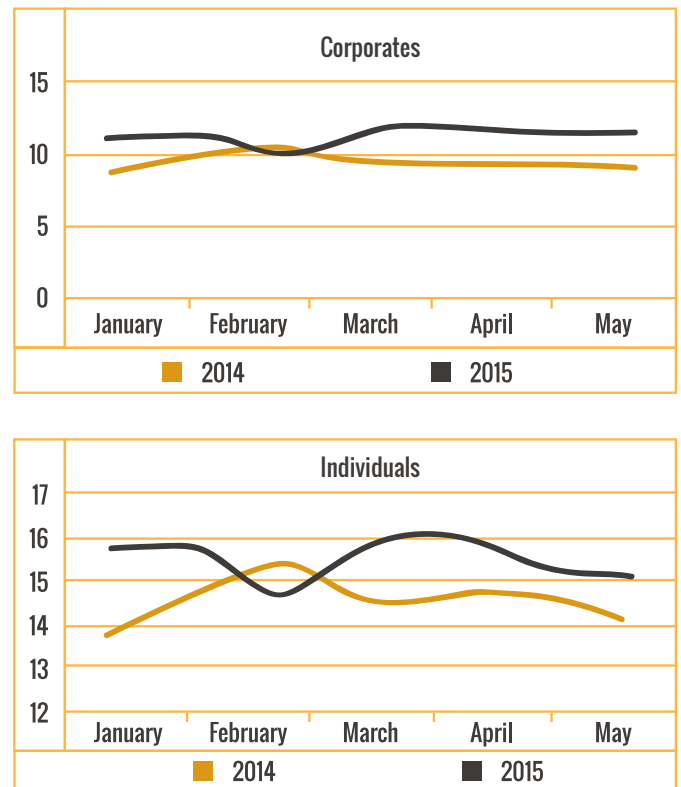
There seems to have been some narrowing in the gap between corporate and individual lending rates in 2015. While corporate lending rates increased over the review period from 11.08% to 11.65%, individual rates declined from 15.64% to 15.05%. The convergence of the lending rates would bring some fairness to small business owners who use personal credit to finance their enterprises.

The main driver of higher interest rates in the second quarter of 2015 is the strong credit demand, mainly from government, which cannot be matched by the sluggish growth in the money supply.

3.2 Bank deposit structure & loans-to-deposit ratios

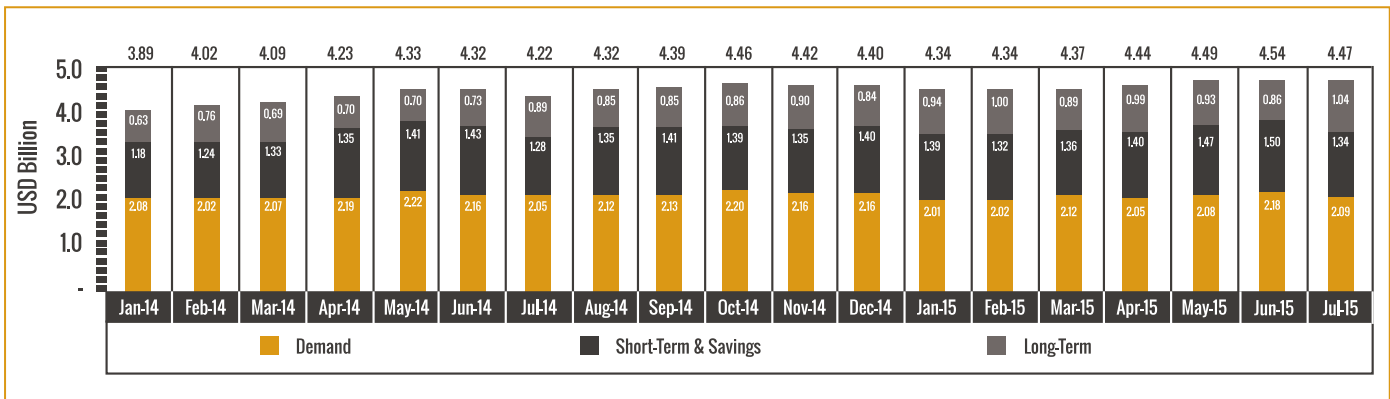
The nature of deposits in banks has shifted slightly towards long term deposits. These averaged 9.68% of total deposits in 2011 but had increased to 19.11% in 2014. For the first seven months of 2015, long term deposits averaged 21.47% of total bank deposits, while it only averaged 17.49% in a comparable period in 2014 (Figure 8).

Figure 7: Real weighted bank average lending rates (%), January – July 2014 and 2015



Source: Calculated from RBZ data

Figure 8: Bank deposits structure, January 2014 – July 2015



Source: RBZ

The increasing share of long term deposits reflects on the one hand improved depositor confidence in the banking system and on the other hand limited alternative investment options. Alternative investment options are limited because neither the stock exchange or government investments appear attractive. The Zimbabwe Stock Exchange has been underperforming, with market capitalization declining by 23.12% in July 2015 from US\$4.96 billion in July 2014 (see Box 2). Investments into government instruments may also be limited by the current fiscal constraints which reduce the attractiveness of government instruments because of compromised government's ability to meet its obligations as and when they fall due.

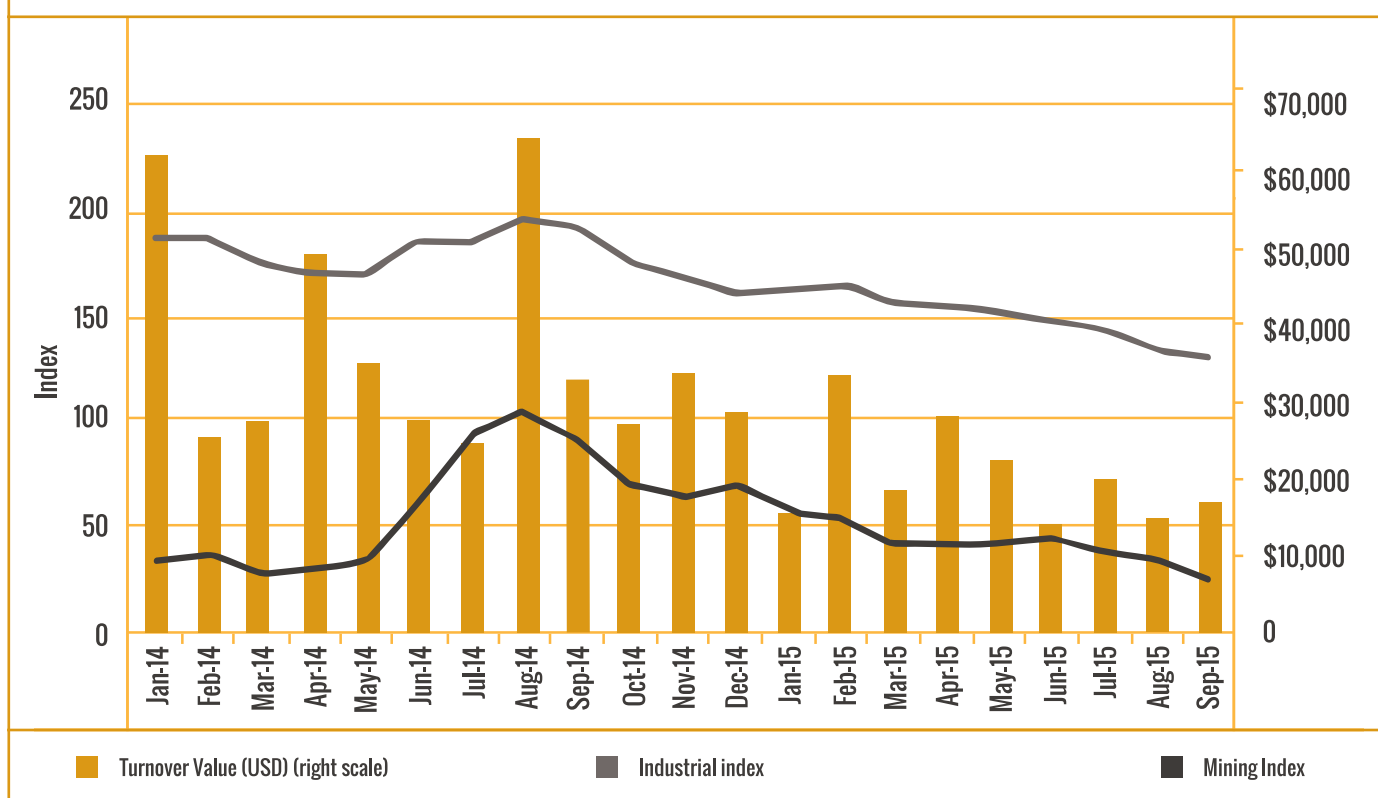


Box 2: From the trading floor: developments in the Zimbabwe Stock Market

Between July and September 2015, the Zimbabwe Stock Exchange experienced one of its worst performances in recent years. This was compounded by shockwaves from the global financial markets emanating from concerns about a China-led global economic slowdown and tumbling commodity prices. Depressed economic performance in the domestic economy also weighed down the performance of the local bourse.

For the nine months to September 2015, the industrial index lost 70.06 points (34.68%) after opening the year trading at 201.99. The mining index also lost 21.43 points (46.80%) after opening trading for the year at 45.79. As a result of this poor performance, market capitalization declined by 21.09% from US\$4.37 billion in January 2015. On a year on year comparison, both the industrial and mining indices failed to surpass their September 2014 performance by 63.32 points (32.43%) and 68.4 points (73.74%) respectively (Figure 9).

Figure 9: ZSE Industrial and Mining Indices, January 2014 - September 2015



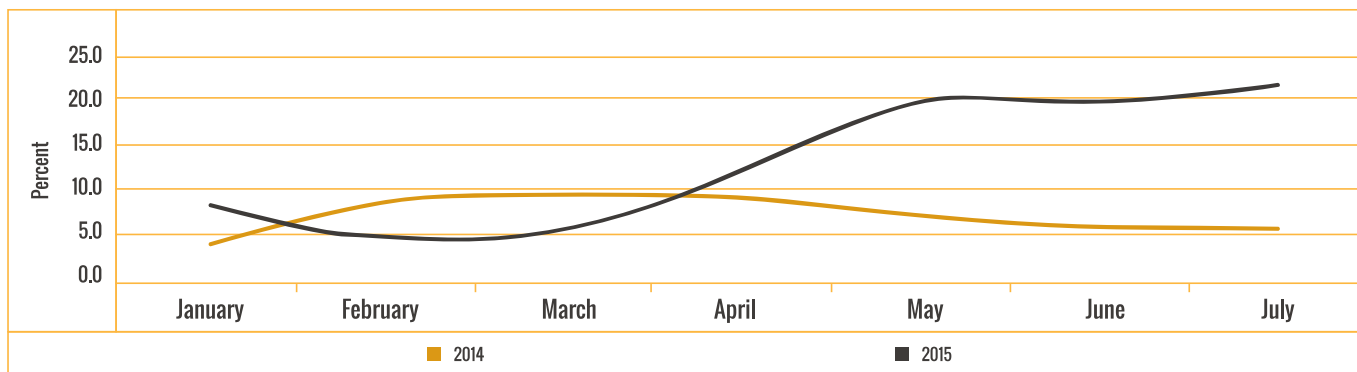
Source: Zimbabwe Stock Exchange

3.3 Credit to the Private Sector

The real domestic credit growth rate is the inflation adjusted growth rate of financial resources provided to the private sector, government and public enterprises by financial corporations (i.e. central bank, deposit money banks, building societies and postal savings bank in Zimbabwe). This has been particularly strong since April 2015, reaching 21.84% in July 2015 compared to only 5.69% in July 2014 (Figure 10). Combined with decelerating real money supply growth (from 13.06% in January 2015 to 8.93% in July 2015), this has exerted an upward pressure on real lending rates.

The growth in domestic credit has largely, however, been driven by government – for example, through the issuance of \$832.9 million worth of treasury bills to commercial banks and building societies (as of July 2015). Up until the same date, domestic credit grew by 21.84% compared to 5.69% in 2014. Of this the private sector contributed 4.20% while government and public enterprises combined contributed 17.64%.

Figure 10: Domestic credit growth, January - July 2014 and 2015

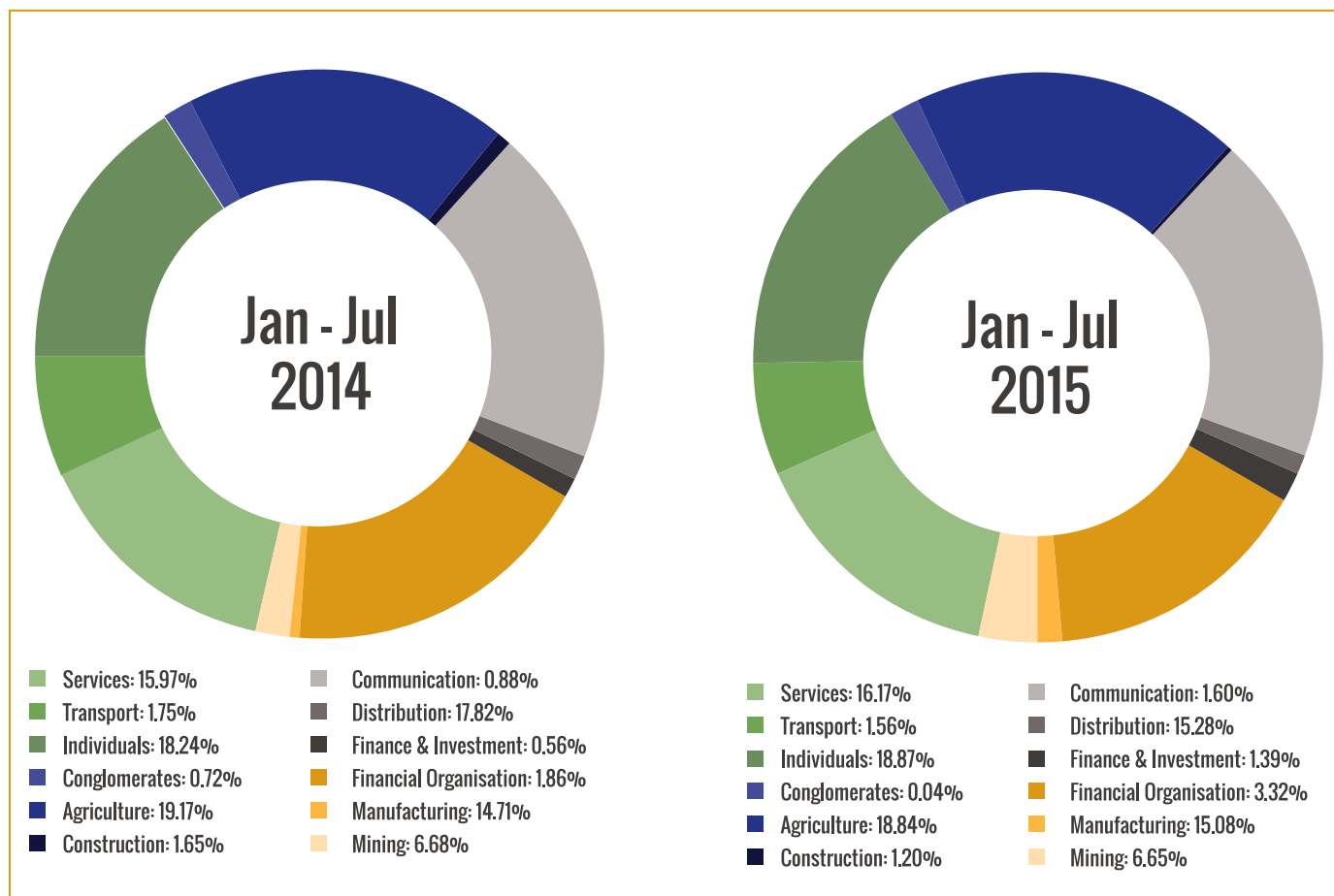


Source: Calculated from RBZ data

Loans and advances, which constitute the bulk of the private sector credit, were distributed mainly to agriculture, individuals and the distribution sector in both periods (Figure 11). Key points to highlight from these charts include:

- Agriculture receives the largest share of loans and advances.
- Lending to individuals has slightly increased as a share (reflecting the profitability of this market and also the growth of financing small businesses using personal credit).
- The share of loans and advances extended to financial organisations, finance and investments, the manufacturing sector, services and communication has increased between 2014 and 2015.

Figure 11: Sectoral distribution bank loans and advances, January - July 2014 and 2015



Source: Calculated from RBZ data

4.1 Agriculture

Summary

Tobacco sales fell by 14% from the US\$685.2 million realised last year. A fall in tobacco production is anticipated as shown by the low seed sales and a decline in farmers who have registered to grow the crop in the coming season. Food production in Zimbabwe is also under threat as El Nino is looming. This is sparking serious concerns about food security.

Tobacco

Total tobacco sales stood at US\$586.4 million as of 18 September 2015, down from US\$685.2 million in the same period for 2014. In addition, the average price has slipped by 22c/kg, from at US\$3.17/kg in the previous marketing season to US\$2.95/kg this season. Looking forward it is anticipated that next year's harvest will be lower than this year's, given:

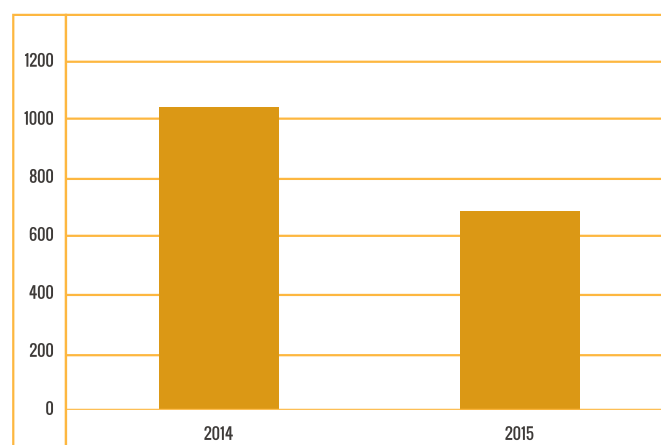
- Lower seed sales: as of 18 September seed sales had declined by about 34% from 1,037kg covering 172,814 hectares in 2014 to 684.67kg covering only 114,112 hectares in 2015 (Figure 12).
- Reduced number of registered tobacco farmers: only 55,486 growers registered to grow tobacco in the 2015/6 season, representing a 24% decline from those that had indicated to do so in the same period for 2014.

Food security threat looming

Meteorological experts say there is a 90% chance that El Nino will develop in the October to December 2015 period. This climate phenomenon (which develops in the tropical Pacific) is historically associated with below average and erratic rainfall in the south-eastern parts of the region. The prospects of a second successive poor rainy season across southern Africa raise serious concerns about food security for next year. Zimbabwe, along with Mozambique and Malawi, are said to be especially vulnerable to late rains in the forthcoming 2015/16 agricultural season.

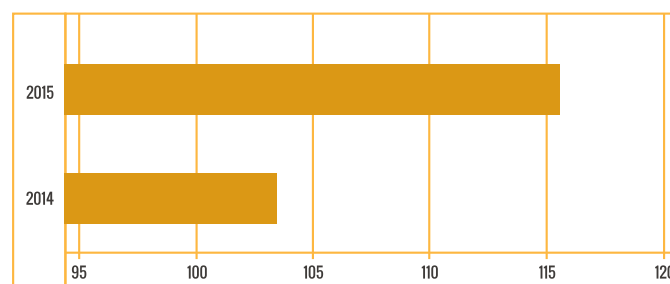
Weather variability in the recent years has resulted in recurrent droughts in Southern Africa. In the last season Zimbabwe experienced a fall in the maize harvest of 35%. Given that maize is a staple for the majority of Zimbabweans, it is estimated that 1.5 million people will need food assistance in early 2016. Disruptions in food production have also occurred in Zimbabwe's source markets in Southern Africa and Central America. This is posing an upward pressure on the maize price and will reduce poor households' ability to afford it. The result of falling harvest in Zimbabwe has been increased reliance on imports. Zimbabwe, which has been a net food importer for over 15 years, saw maize imports in the first eight months of 2015 hit US\$115 million, up from US\$103 million over the same period in 2014 (Figure 13).

Figure 12: Flue-cured tobacco seed sales (kg), 2014 and 2015



Source: Tobacco Industry and Marketing Board

Figure 13: Maize imports (US\$ million) January - September 2014 and 2015



Source: ZIMSTAT

Policy needs to respond to the changing climatic conditions if the threat of food security is to be prevented. There is an urgent need to grow drought resistant crops or early yielding varieties. Further, the government needs to commit funds towards the rehabilitation of silted dams across the country and revamp irrigation schemes as relying on rain-fed agriculture is proving to be more and more risky.

4.2 Manufacturing

Summary

There is evidence that temporary protection offered to some sectors appears to have had a positive impact on boosting local production. However, Zimbabwe's dollarized economy still remains an attractive export market for those countries with weakening currencies. Zimbabwean firms remain vulnerable to competition from the region.

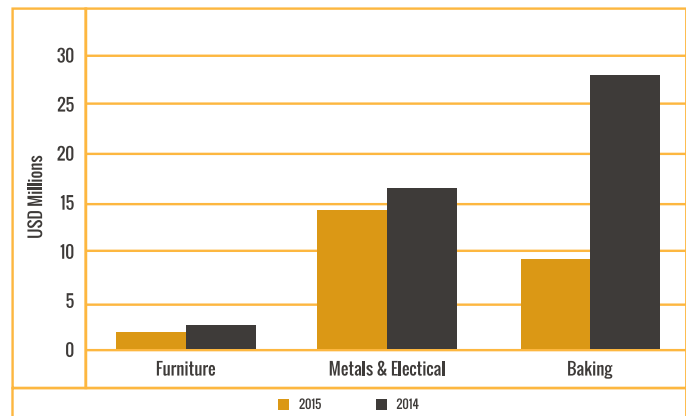
One of the policy measures introduced in the 2015 National Budget Statement to enhance manufacturing was the introduction of some temporary protection to local industry through the imposition of customs duty. This was mainly motivated by the encouraging response to similar measures in the past, where, for example, players in the cooking oil and dairy industries had taken advantage of the situation by enhancing their production capacity. Concerns have been raised, however, in respect of whether local manufacturing firms are ready to exploit these new protective measures. For instance, most of the firms use antiquated plants and machinery, while the liquidity challenges in the economy also makes it difficult for them to invest in production due to limited access to credit.

One way to judge whether local firms are ready to enhance production is to look at the trends for imports after the imposition of higher tariffs. If the capacity of the players is limited, the imposition of tariffs would not have any impact on import trends, as the products would continue to come into the country, albeit at higher prices.

Selected products that were made subject to a higher tariff rate with effect from the 1st of January 2015 include those from the furniture, metals and electrical and baking industries. A comparison of the import levels for these products with those in the previous year would reflect the impact of the policy (assuming demand for the products remained more or less constant).

A look at the import trends shows that the importation of products from all the three sectors decreased during the period January to September 2015 compared to the same period in 2014 (Figure 14). The decrease was more pronounced for baking products, where imports fell by 65.4%, while metals and electrical show the smallest decline of about 12.1%. Although furniture products are generally imported in low volumes compared to the other two subsectors, they nevertheless registered a significant decline of about 30.4%. Note also that the decline in

Figure 14: Imports of select manufacturing products subjected to high tariffs, Jan - Sept 2014 and 2015



Source: ZIMSTAT

imports of these commodities over the period did not result in shortages or higher prices in the Zimbabwe market. This could imply that local firms were able to meet demand, suggesting an increase in activity as intended by the policy.

Despite the imposition of tariffs and the fall in imports shown in Figure 14, substantial quantities of these products are still being imported. This reflects capacity limitations, which are preventing local manufacturing firms from quickly producing quality products in such volumes that they would be able to entirely displace import competition. It also reflects the fact that despite tariffs, the dollarized Zimbabwe market remains attractive due to weakening currencies from the exporting economies. Manufacturing firms in Zimbabwe are vulnerable to competition from the wider region.



4.3 Tourism

Summary

The country recorded a slight decrease in hotel occupancy of one percentage point to 41% in the first half of 2015 (compared to a similar period in 2014), a consequence of the overall economic context depressing domestic tourism. Arrivals increased by 7% over the same period in 2014. However, the increase is deceptive as it was mainly driven by arrivals from mainland Africa and Oceania regions. All other visitor markets (with the exception of China) recorded declines. This is worrying as overseas arrivals contribute more economically.

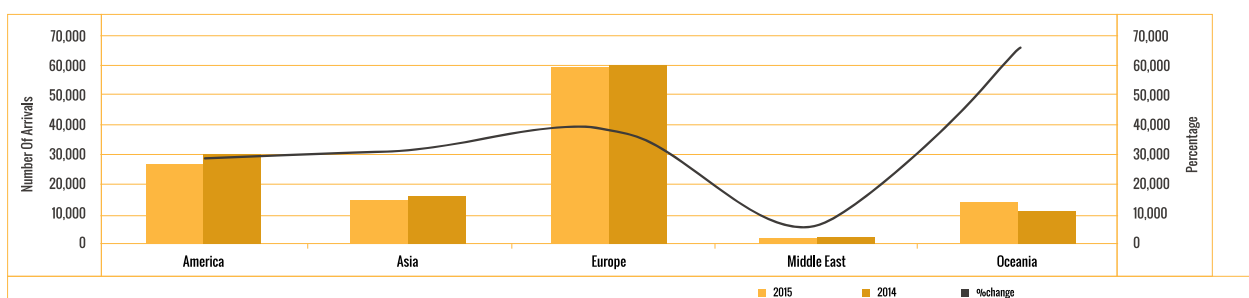
One important measure of tourism is the average hotel room occupancy level. This fell by one percentage point from 42% to 41% in the first half of 2015 compared to the same period in 2014. Local clientele constituted 85% of the occupancies and foreigners 15%, whereas in 2014, locals made up 84% of occupancies and the remainder were foreigners. Regions that recorded declines were Masvingo (10%), Nyanga (7%) and Mutare (5%). These regions are largely dependent on domestic tourism, mainly conferencing, with the locals constituting 92% of clients in accommodation facilities. Domestic tourism is being affected by the overall economic climate. However, Kariba and Hwange, which are more popular with foreign tourists, experienced positive growth in occupancies of 11% and 8% respectively. This could be attributed to improved access to the resorts via Air Zimbabwe. The country registered a 7% increase in arrivals in the first half of 2015 – up to 930,276 visitors - compared to the same period in 2014. However, the bulk of these visitors came from mainland Africa with overseas arrival numbers falling. The decline in overseas visitors, especially from Europe, is worrisome for the country as the tourists from these source markets contribute substantially to total receipts. In contrast, visitors from mainland Africa in most cases are visiting friends and relatives and tend to spend less on tourist attractions. Arrivals from mainland Africa and Oceania rose by 9% and 26% to reach 811,717 and 14,567 respectively. South Africa continues to dominate arrivals from mainland Africa, with an increase of 38% to reach 329,549 (this is mainly due to the large number of Zimbabwe residing and working in that country). However, other markets witnessed a fall in visitor numbers (Figure 15):

Arrivals of tourists from the Americas fell by 11%

- Arrivals from Europe, a leading international market, in the first half of 2015 fell by 1% (from 7% to 6%) to 60,021 visitors compared to the same period in 2014.
- Arrivals from the Asian market declined by 8% to 14,999 compared to 2014. However, arrivals from China increased by 46% as a result of the growth in Chinese business activity in Zimbabwe.
- Arrivals from the Americas fell by 11% to 27,117, though the region continues to be the second largest overseas market for Zimbabwe.

The Middle East contributes the fewest visitors with less than 1% of market share. Arrivals from the region declined by 33% in the first half of the year compared to same period in 2014.

Figure 15: Overseas tourist arrivals for the first half of 2014 and 2015



Source: Zimbabwe Tourism Authority

4.4 Mining

Summary

There was an increase in total gold deliveries from January to September 2015, mainly driven by a phenomenal increase of 114.9% in small scale miners' deliveries. Platinum production over the same period, however, declined by 1% due to the closure of Bimha Mine in July 2014. Cumulative total mineral earnings for the country over the period decreased by 11.02% compared to the same period in 2014, owing to decline in international commodity prices.

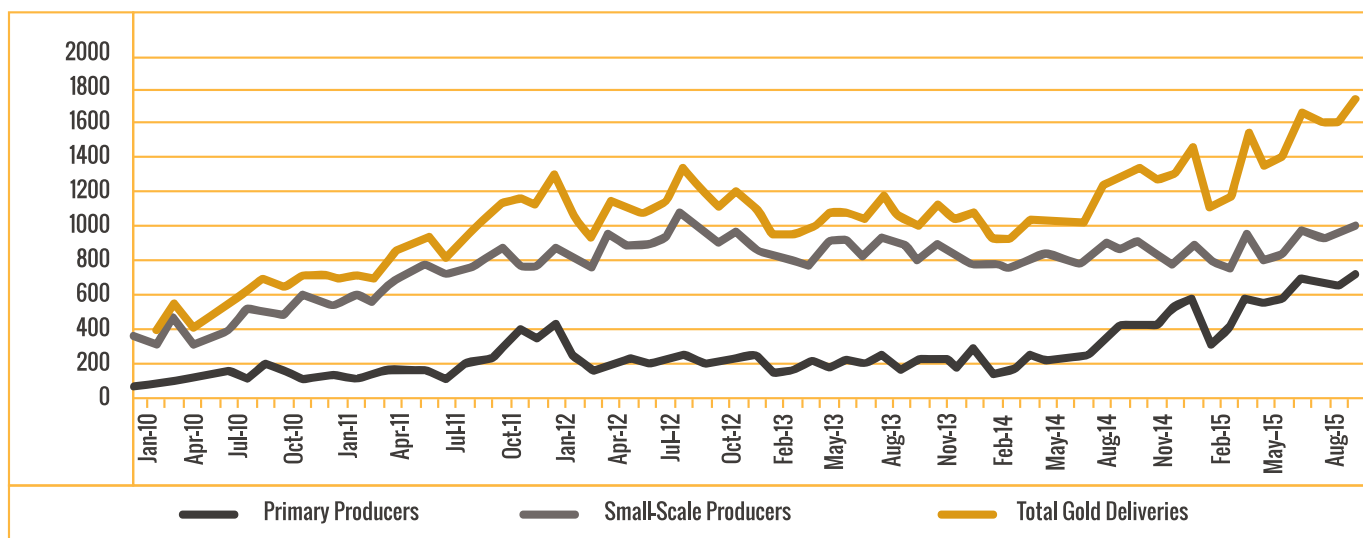
Gold

In 2015 total gold deliveries from January to September increased remarkably by about 34.2% to 13,211kg compared to the level recorded over the same period in 2014. This was driven by an impressive 114.9% increase in small scale miners' deliveries to 5,183kg (Figure 16). Deliveries by primary producers in 2015 also increased by about 8% to 8,027kg compared to their 2014 levels. The contribution of small scale miners translates to about 28.2% of total deliveries between January and September 2015. This is a 3.7 percentage point increase from the contribution in the comparable period in 2014, demonstrating their increasing importance in the industry. The trend is expected to continue, given that royalties for small scale gold miners with output not exceeding 0.5kg per month have been reviewed downwards to 1% from 3%. This is intended to incentivise small scale miners to sell gold through formal channels.⁴

Total deliveries in 2015 so far translate to about 75.5% of the 17,500kg target for 2015, thus a high likelihood of meeting the target by December 2015. However, the current production is still far less than Zimbabwe's peak production of about 27,000kg realised in 1999.

Gold deliveries increased by about 34.2%

Figure 16: Gold deliveries, January - September 2015



Source: Fidelity Printers and Refineries

Platinum

Platinum production for the first nine months of 2015 declined by 1% compared to same period in 2014 to 9,383kg (Figure 17). This was a result of a collapse which occurred at Bimha Mine (Zimplats' biggest underground mine) on 8 July 2014, rendering 50% of the mine footprint inaccessible. This led to suspension of production at the mine and subsequently led to the precautionary closure of operations on 23 August 2014.

⁴ 2015 Mid Term Fiscal Policy Review.

The redevelopment of Bimha mine which was approved in November 2014 is meant to ramp production back to design capacity in the second half of 2018. This led to the partial substitution of higher grade Bimha Mine ore with lower grade ore from Ngwarati Mine and the Ngezi South open-pit operation to reduce the ore supply gap. The first ore was delivered from the open-pit in April 2015 and will be stopped when Bimha Mine is back to full design production capacity. This however diluted the average grade of the ore. Implementation of the outstanding components of the Ngezi Phase 2 expansion project is also progressing well.

Currently, platinum mines are exporting concentrates (Mimosa and Unki) and matte (Zimplats) and plans are afoot to expand concentrator and smelter facilities. There are also plans to retool Bindura Nickel Refinery, Empress Nickel Refinery and the Zimplats base metal refinery (BMR). The BMR is meant to further beneficiate from the current final product of converter matte (Zimplats) and concentrates (Mimosa and Unki) to platinum group metals (PGM) cake, copper cathode and nickel sulphate. Procurement

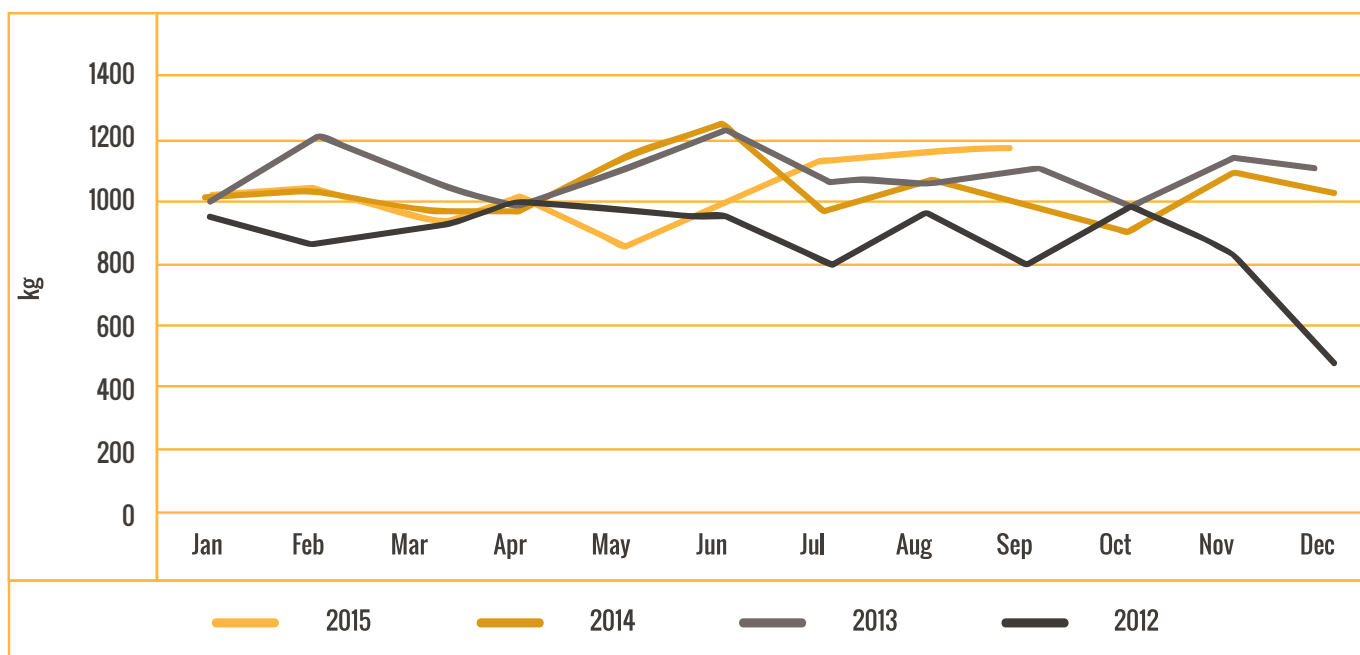
of long lead items for the BMR has commenced and project commissioning is scheduled for July 2016.

Mineral Earnings

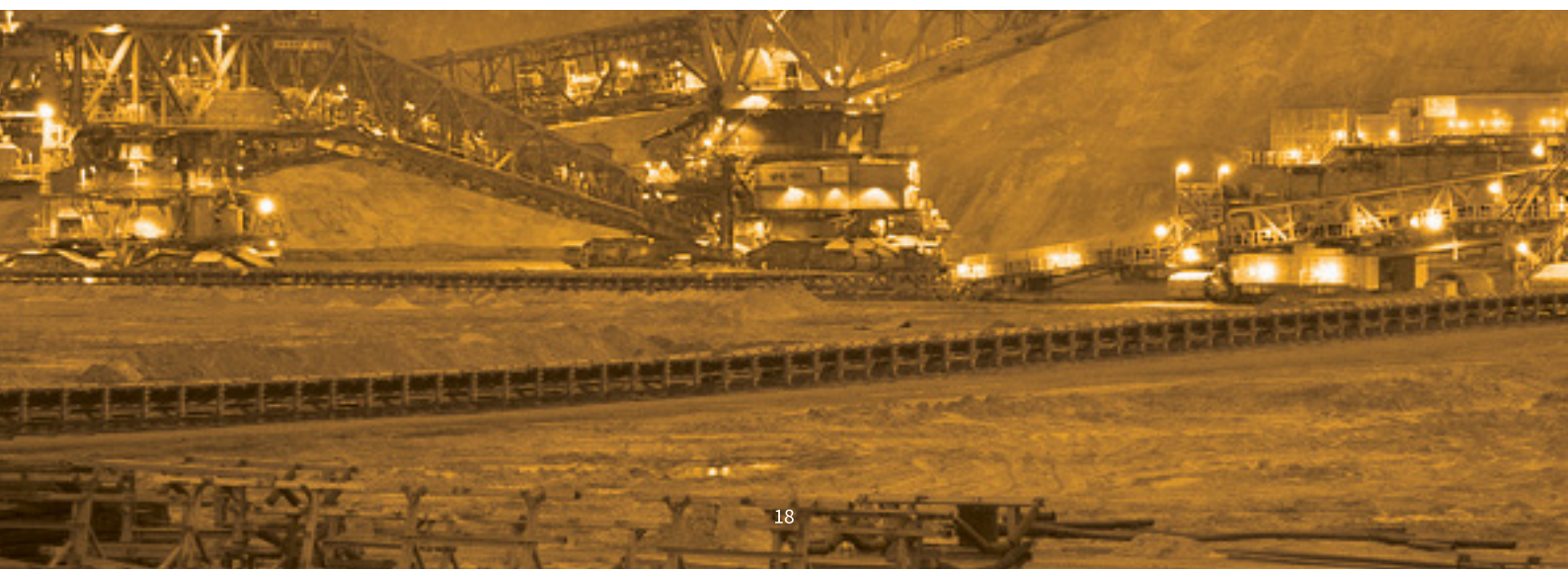
Cumulative total mineral earnings (excluding diamonds) for the nine months to September 2015 amounted to US\$1.26 billion, showing a 11.02% decrease compared to the same period in 2014. Gold was the major contributor to total revenue, accounting for 42.1% while platinum, palladium and nickel contributed 22.7%, 11.8% and 8.9% of the total mineral earnings, respectively. These four minerals combined accounted for about 85% of the total mineral earnings.

The decline in mineral earnings can be attributed to the general decline in commodity prices on the international market. This calls for the government to continue with the beneficiation and value addition efforts to further develop the downstream industries. This would enable the country to reduce its exposure to the volatile prices of primary commodities which are determined on the global market. Zimbabwe is a small country which cannot influence the terms of trade in the wider global economy.

Figure 17: Platinum production, January 2012 - September 2015



Source: The Chamber of Mines of Zimbabwe



Summary

A dollarized economy means Zimbabwe faces significant competition from countries with depreciating currencies – in particular from South African imports.

Since dollarization in 2009, the Zimbabwe economy has been characterised by a stronger currency compared to other countries in the region. This is especially true of 2015 as a number of regional currencies have depreciated sharply against the US\$. Zimbabwe's external trade is influenced by exchange rate movements. Depreciating currencies are expected to impose negative pressure on Zimbabwe's export volumes. Equally, the Zimbabwean market has become lucrative to the regional and international markets, in their quest to have access to the US\$. As a result, firms are prepared to export into Zimbabwe at costs as they can easily recover their margins through exchange rate fluctuations.

By September 2015, exports had fallen by about 16.5% from the value of US\$247.4 million recorded in January 2015. Over the same period, imports increased by about 9.5% to about US\$502 million. Imports from South Africa constituted 40% of total imports during the period. The dominance of South Africa was also apparent in exports, as exports into South Africa constituted about 70% of total exports during the period. Thus although the exchange rates of other economies such as Zambia, Mozambique and Botswana are also critical, it is mostly the SA rand/\$US exchange rate that is expected to have a significant role to play in determining the direction of Zimbabwe's imports and exports.

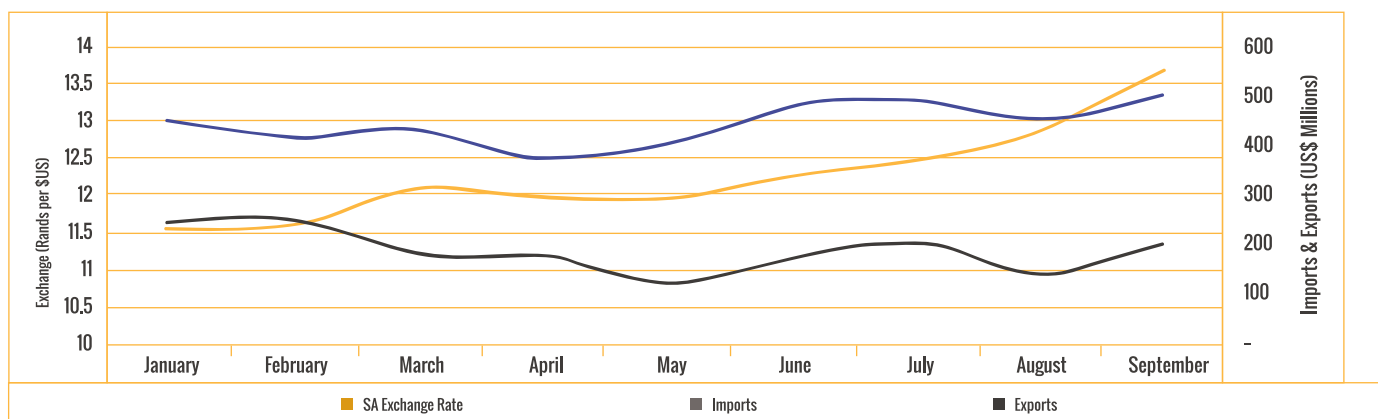
During the period January to September 2015, the South African rand depreciated by about 18.2% relative to the US\$. A graphical presentation of the trend of the rand on one hand and that of exports and imports on the other

(Figure 18) suggests a relationship, although it appears weak when it comes to exports. As already presented in Box 1, the South African average inflation rate did not change much between January and September, increasing only by 0.2 percentage points. Thus inflation pressure in South Africa did not really offset the depreciation of the rand. The correlation coefficient of the rand movement with that of total imports during the period is about 0.61, suggesting that there is indeed a positive relationship.

Thus, the exchange rate remains one of the critical issues influencing Zimbabwean imports. The correlation coefficient of the rand and total exports is about -0.28. This means that while the rand movement negatively affects exports, the association is very weak. This shows that most of the export products destined for South Africa are driven by market availability; as such the exchange rate movements have little impact in affecting decisions. This is also confirmed by the correlation coefficient between exports into South Africa from Zimbabwe and the rand movement, which is about -0.33. While the exchange rate matters, it does not play a leading role in influencing the decision to use South Africa as the export market.

To sum up, the continuous depreciation of the rand is mostly a problem as far as imports are concerned. It explains why imports continue to flood the Zimbabwe market despite the policy measures to curtail them through higher customs duty. Policies designed to curtail imports need to be cognisant of the potential that the rand/US\$ exchange rate has to reduce their impact.

Figure 18: Relationship between SA rand exchange rate, total imports and total export movements for Zimbabwe, Jan - Sept 2015



Sources: ZIMSTAT and X-rates.com

Summary

Industrialization is key to achieving long term improvements in the Zimbabwe economy – but the country is a long way off realizing this.

The SADC Member States held their 35th Summit between 17 and 18 August 2015, in Gaborone Botswana. The meeting ran under the theme: “Accelerating Industrialization of SADC Economies through Transformation of Natural Endowment and improved Human Capital”. Among other issues, the Member States reviewed progress made in the implementation of the newly adopted SADC Industrial Strategy. The SADC Industrialization Strategy is anchored on three pillars; industrialization, competitiveness and regional integration. It covers the period 2015 to 2063 and is aligned to the continental vision - Agenda 2063.

These three pillars are of particular importance to Zimbabwe, given the poor performance of industry. For example, in Zimbabwe the share of value added to the country’s GDP from manufacturing is on a declining trend: it fell from 32.7% in 2011 to just 29.6% in 2014. Further, manufacturing exports as a share of total exports were only 13% in 2013. Zimbabwe’s industrial capacity utilisation, is quite low, averaging 36.3% in 2014. The other challenge Zimbabwe faces is that the bulk of its exports are low value primary commodities that are not very competitive on the international market. Industrialization is key for Zimbabwe as it brings with it new skills and new technologies that are particularly lacking locally. It further supports inclusive growth, as it promotes value addition that creates employment opportunities especially in the extractive sectors, like agriculture and mining. Given the high levels of unemployment prevailing in the country, this is an agenda of critical importance.

⁵ This is the extent to which the local manufacturing sector uses its installed productive capacity.

Special feature number 1: Enhancing export competitiveness in Zimbabwe

Summary

The best way to securing liquidity in a dollarized economy is through boosting Zimbabwe's export competitiveness. This requires cutting regulatory red tape and prioritising value addition of primary products, especially mining and agriculture export products.

7.1 Context

Zimbabwe adopted a dollarized economy (or more accurately a multi-currency regime) in 2009 but did so without any corresponding conversion framework or finances to support the conversion process. Within the context of a dollarized economy, there are generally about five main mechanisms through which the country's liquidity position can be improved: diaspora remittances; grants, loans and lines of credit; income receipts; foreign direct investments; and exports earnings. Of these, the main channel to boost liquidity in the financial system has proved to be exports receipts. For the period 2009 to 2014 exports have been contributing about 60% of the country's foreign earnings, followed by remittances from Zimbabweans in the diaspora at 27%. Loan proceeds (7%), income receipts (3%) and foreign investment (3%) have all failed to make a significant contribution.

Thus, exports competitiveness remains the only avenue through which the country can significantly influence its liquidity position under a dollarized environment. Yet worryingly exports have generally been declining since 2013 in Zimbabwe. Products worth about US\$3.1 billion were exported in 2014, which was a drop of about 12.7% compared to their level in 2013. During the first nine months of 2015, exports declined significantly by about 20.8% compared to the same period in 2014, to about US\$1.72 billion. The poor performance of exports, at a time when imports are rising, has widened the trade deficit, precipitating a worsening of the current account deficit (around 25% of GDP in 2014). Given the fundamental importance of exports to Zimbabwe's

future economic prospects, in particular its liquidity in a dollarized economy, this special feature explores some of the critical issues that need to be addressed to make our exports more competitive.

7.2 Zimbabwe Export Competitiveness

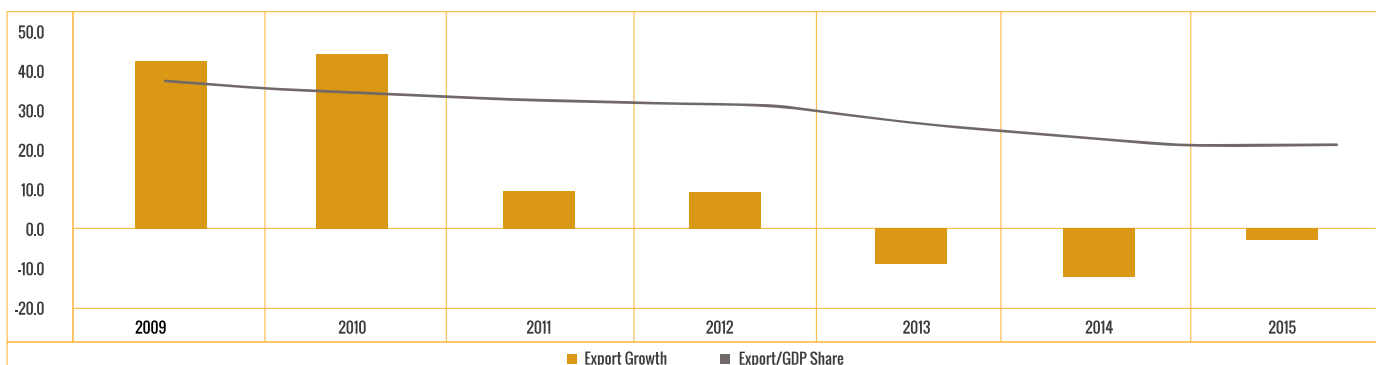
A country's export competitiveness is defined by its ability to produce and sell quality goods and services in foreign markets at prices that ensures viability of the producers. There are two main determinants of export performance: (i) access to foreign markets, which is determined by export prices and trade barriers (both tariff and non-tariff barriers) and (ii) supply-side factors, such as the capacity of the exporting firms to take advantage of export market opportunities availed to them.

Export competitiveness can be measured by the level and growth of exports as well as the diversification of exports. This can be done within the Zimbabwean context as follows:

Level and Growth of Exports

The growth rate of exports was very substantial between 2009 and 2010, before declining significantly in 2011 until the current negative trend started in 2013 (Figure 19). Exports as a percentage of GDP have reflected the same declining trend, although this has been more gradual than the export growth rate (Figure 19). These trends demonstrate that Zimbabwe export competitiveness has generally been deteriorating in recent years.

Figure 19: Export growth rate and export/GDP ratio, Zimbabwe 2009 - 2015



Source: ZIMSTAT and Zimbabwe 2015 National Budget Statement

Diversification of exports

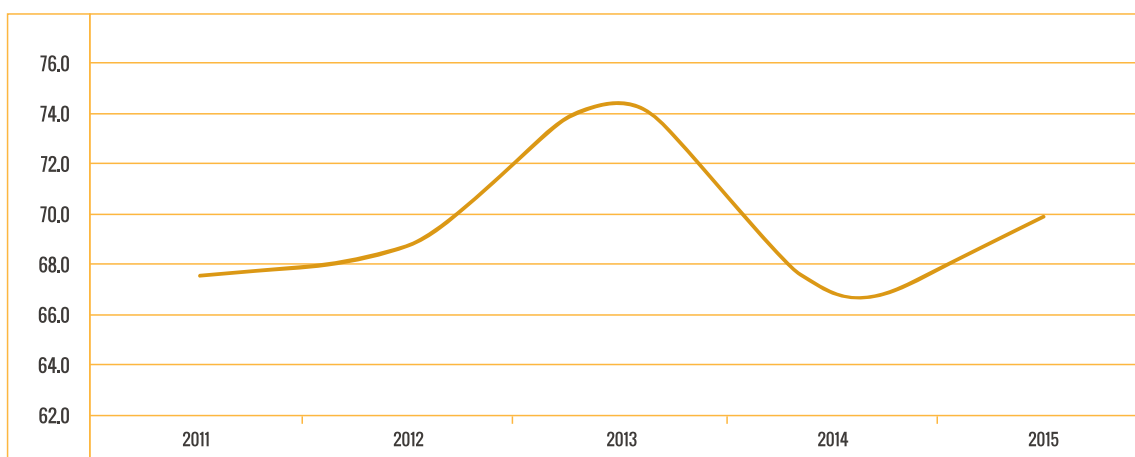
When exports are concentrated in one product, this can make a country vulnerable to external shocks. In contrast, when exports are more diversified this reduces volatility in output. Export diversity can be measured in two ways: with respect to products, as well as with respect to markets.

Zimbabwe's exports are mostly destined for South Africa. During the first nine months of 2015, more than two thirds (70%) of Zimbabwe's exports were South Africa bound, followed by Mozambique (14%) and the United Arab Emirates (7%). These three economies thus accounted for about 91% of the export basket. The overreliance on one export market is the result of

a lack of diversification of Zimbabwean exports. A look at the recent trend (Figure 20) underlines this. This relative lack of diversification reflects the failure to gain competitiveness of the export sector since 2011.

With respect to products, the Zimbabwe export basket is mostly characterized by unprocessed mineral and agriculture products as evidenced from the breakdown of the main export products from Zimbabwe (Table 4). The mining sector dominates, as its shares in exports range from approximately 33% in 2011 to approximately 54% in 2015. The dominance of primary products leaves Zimbabwe vulnerable to commodity price shocks.

Figure 20: South Africa's share in Zimbabwe total exports, 2011 - 2015



Source: ZIMSTAT and Zimbabwe 2015 National Budget Statement

Table 4: Share of total exports of Zimbabwe's main export products, 2011-2015

	Gold	Diamonds	Platinum	Ores and concentrates	Ferro-chrome	Unprocessed Tobacco	Total
2011	9.9	7.3	2.8	10.2	3.2	18.7	52.1
2012	16.1	17.1	3.7	9.5	3.3	20.0	69.8
2013	14.3	9.3	4.0	9.6	4.2	24.8	66.3
2014	17.4	7.6	4.5	11.9	8.8	26.4	76.6
2015	25.4	8.5	2.4	11.1	6.7	21.1	75.2

Source: ZIMSTAT

7.3 Why Zimbabwe Is Not Export Competitive

There are several reasons why Zimbabwean firms are not as competitive as firms from neighbouring countries in the export market. Compared to firms in other countries in the region, Zimbabwean firms' competitiveness is adversely affected by the higher operational costs they face. This is particularly true with respect to electricity charges and water charges, which are higher than in other countries in the region.

Regulation costs are also a burden to manufacturing firms. Compliance with statutory requirements by the National Social Security Authority (NSSA), Environmental Management Agency (EMA), Medicines Control Authority of Zimbabwe (MCAZ), Health Professions Authority (HPA), various local authorities and the Radiation Protection Authority of Zimbabwe (RPAZ) can see a firm

in the chemical industry paying about US\$51,700 a year on regulatory charges, while a firm in the pharmaceutical industry can pay about US\$41,500 in regulation fees. There are also a lot of overlaps in the mandates of these institutions, which add to the administrative burden, and which would benefit from being harmonised.

Export permits also impose additional costs on exports, rendering them uncompetitive. Although export permits are important in regulating products to avoid smuggling and illicit flows, the process of obtaining them is bureaucratic and costly. This leads to companies failing to deliver consignments to export markets in time. Permit issuing offices are not centralised, while multiple clearing windows also exist at the border posts. These also undermine export competitiveness.

7.4 Measures to enhance competitiveness

ZEPARU argues that the following measures would help tackle the barriers to export competitiveness:

- Properly designed tax incentives, which take account of the current production bottlenecks. For example, quick actionable reforms include reducing the regulatory costs imposed on firms and streamlining the number of procedures exporters need to follow.
- Making the economy attractive for investment would also go a long way to attracting FDI. The current liquidity challenges in Zimbabwe and the limited access to long term finance imply that foreign investors are needed to invest in strategic areas that enhance the production capacity of the country.
- There is a need to strengthen exports by prioritising value addition of primary products, especially for mining and agriculture export products.

**There is
need to
prioritize
the value
addition
of primary
products**

Special feature number 2: Adopting fiscal rules as a tool to enhance Zimbabwe fiscal space

8.1 Why Government should adopt Fiscal rules

The government of Zimbabwe continues to grapple with significant budget demands which are not matched by the growth of the resource envelope. The mismatch between expenditure and revenue is one of the most binding constraints to economic development in Zimbabwe. The fiscal regime in Zimbabwe has problems due to the following:

- About 92% of the budget revenue is spent on recurrent expenditure, leaving only about 8% for capital expenditure, despite capital expenditure being the growth-enhancing component of the budget with the potential to create future revenue streams.
- Short term consumptive expenditure is prioritized over long term public investment that, for example, improve growth enhancing infrastructure.
- In addition to hard infrastructure, there is need for adequate funding of health and education, for example, to strengthening the human capital that is essential for the sustainable development of the country.

The public expenditure allocation model thus needs to cater for the short term and long term societal needs. This requires greater predictability and consistency in policy. One way of ensuring such predictability and consistency is to reduce the extent of ad hoc discretionary policy decisions through designing and implementing properly contextualized fiscal rules.

8.2 Defining Fiscal Rules

A fiscal rule is a standing commitment by government to specified numerical targets for some key budget and/or debt aggregates as well as procedures. The rule compels budget-makers to tax and spend within fixed constraints that do not waver with shifts in political sentiment. There are generally four broad fiscal rules that can be used as guidelines for budgetary processes:

Balanced Budget rules: These constrain the size of the budget deficit, which can either be the 'overall balance' or the 'structural or cyclically adjusted balance'.

Debt rules: These set an explicit limit or target for public debt as a percentage of GDP. This is often very effective in ensuring convergence to a debt target.

Expenditure rules: These set permanent limits

on total, primary, or current spending in absolute terms, growth rates, or as a percentage of GDP.

Revenue rules: These set ceilings or floors on revenues and are aimed at boosting revenue collection. They also serve to prevent an excessive tax burden for taxpayers.

8.3 Recommendations for Government

ZEPARU suggests the following recommendations on fiscal rules:

a) Debt Rule

Zimbabwe currently has public debt – held by central government - of about 60% of GDP. This is similar to other countries with fiscal rules. However, the reason it is not higher is the challenges the government faces in borrowing. Anticipating a time when it is easier for the government to borrow, Zimbabwe should formally adopt a rule to ensure that debt levels do not unnecessarily balloon. Similar to African countries that are members of the West African Economic and Monetary Union (WAEMU) and Central African Economic and Monetary Community (CEMAC), the government should consider adopting a debt rule that limits the total stock of public debt for central government to below 70% of GDP. The current experience under the IMF Staff Monitored Programme (SMP) has revealed that government can sustain this.

b) Expenditure Rule

The expenditure rule should help reduce recurrent expenditure and allocate more resources towards development oriented spending. As in Botswana the rule could specify a minimum percentage of the budget that goes towards development spending. In addition, the rule can also give a ceiling on employment costs as a proportion of total expenditure.

c) Budget Balance Rule

As per the experience in WAEMU and CEMAC countries, the budget balance rule for Zimbabwe could focus on the overall budget (excluding budget grants and foreign-financed capital expenditures) either being balanced or in surplus. Based on current experience with the SMP, this can also impose a ceiling on the deficit that can be tolerated.



Statistical Tables

Table 1a: International Commodity Prices

	2013									2014					
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Gold (US\$/oz.)	1486.05	1414.26	1342.66	1287.22	1347.26	1348.63	1315.25	1233.50	1223.35	1241.82	1299.83	1336.71	1298.80	1289.06	1278.49
Platinum (US\$/oz.)	1487.94	1476.80	1430.98	1399.02	1494.55	1459.40	1413.52	1360.50	1357.18	1420.43	1409.51	1451.1	1431.40	1451.79	1452.60
Brent crude (\$/bl.)	102.77	103.68	103.23	107.14	110.08	111.02	109.32	110.25	110.47	107.44	198.69	107.19	107.99	109.2	111.77
Maize (US\$/t) 3YC	279.00	295.50	298.40	279.50	238.70	207.4	201.7	199.1	197.4	198.1	209.3	222.3	222.4	217.3	202.4
Wheat (US\$/t) HRW	308.30	319.70	313.40	304.6	305.3	307.5	325.7	306.8	291.6	275.5	292.3	323.6	324.9	334.7	306.5

	2015														
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Gold (US\$/oz.)	1,310.78	1,361.77	1,240.26	1,222.97	1,177.43	1,201.08	1315.25	1,250.40	1,229.14	1,179.51	1,198.93	1,181.50	1128	1118	1125
Platinum (US\$/oz.)	1,474.00	1,444.92	1,364.91	1,261.33	1,208.80	1,217.98	1413.52	1,242.12	1,200.03	1,139.59	1,151.29	1,088.82	1009	984	964
Brent crude (\$/bl.)	108.27	103.21	98.72	88.04	80.04	63.78	109.32	49.78	58.71	57.02	59.39	62.34	55.90	47	47.20
Maize (US\$/t) 3YC	182.7	176.4	163.1	163.31	178.67	178.67	201.7	174.7	173.7	174.23	172.05	166.72	179.60	162.60	165.60
Wheat (US\$/t) HRW	280.4	263.4	263.4	245.39	258.66	178.67	325.7	248.5	237.2	230.83	223.35	209.87	197.40	179.80	172.70

Sources: BBC, Kitco, IGC and World Bank

Table 1b: Annual Inflation (%)

Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
3.52	3.04	2.67	2.69	2.50	2.86	3.26	3.54	4.29	4.20	4.20	4.90
Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
4.30	4.30	4.00	4.03	4.02	3.97	3.94	3.63	3.24	3.38	2.99	2.91
Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
2.51	2.98	2.76	2.49	2.20	1.87	1.25	1.28	0.86	0.59	0.54	0.33
Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
0.41	-0.49	-0.93	-0.26	-0.2	-0.08	0.313	0.151	0.093	-0.001	-0.784	-0.796
Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15			
-1.280	-1.397	-1.203	-2.648	-2.702	-2.813	-2.771	-2.768	-3.112			

Source: ZIMSTAT

Table 1c: Monthly Inflation (%)

Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
0.74	0.96	1.12	0.12	0.26	-0.10	-0.13	-0.14	0.12	0.21	0.49	-0.44
Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
1.03	0.49	0.75	0.14	0.08	0.24	0.26	0.13	0.85	0.1	0.5	0.2
Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
0.46	0.49	0.43	0.19	0.07	0.20	0.22	-0.20	0.50	0.49	0.43	0.13
Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
0.07	0.95	0.21	-0.07	-0.21	-0.31	-0.38	-0.15	0.1	-0.01	0.09	-0.08
Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sept-14	Oct-14	Nov-14	Dec-14
0.1	0.0	-0.2	0.58	-0.1	-0.03	0.014	-0.309	-0.005	-0.107	-0.692	-0.092
Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15			
-0.343	-0.069	-0.028	-0.888	-0.187	-0.139	0.057	-0.305	-0.359			

Source:ZIMSTAT

Table 1d: Annual Broad Money (M3) Growth (%)

Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
	303.5	322.5	253.7	236.3	160.2	144.3	0.12	0.21	144.3	0.12	0.21
Jan-11	Feb-11	Mar-11	Apr-11	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
67.8	59	52.6	48.4	49.2	56.7	51.6	0.85	0.1	51.6	0.85	0.1
Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12
33.2	37.4	33.4	32.8	31.0	23.8	27.2	0.50	0.49	27.2	0.50	0.49
Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13	Dec-13
21.1	12.9	10.5	14.9	12.2	6.9	4.3	5.8	4.9	3.6	-0.5	1.2
Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sept-14	Oct-14	Nov-14	Dec-14
2.1	5.5	7.8	6.6	7.7	12.6	9.6	13.9	12.2	12.8	16	12.0
Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15				
11.6	7.9	6.8	4.9	3.8	5.1	5.9	3.5				

Source: Reserve Bank of Zimbabwe

Table 1e: Import Balances

	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Imports (c.i.f) US\$	623,206,079	630,450,492	648,464,154	1,222,428,122	815,114,707	1,262,300,269	622,964,149	587,901,029
	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12
Imports (c.i.f) US\$	598,628,842	464,135,767	504,991,549	482,997,091	523,990,332	500,657,173	674,429,368	799,467,460
	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13
Imports (c.i.f) US\$	633,025,036	890,785,181	713,429,472	665,502,187.37	606,712,339.28	499,162,649.69	532,812,989.20	963,636,659.42
	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13	Dec-13
Imports (c.i.f) US\$	580,022,084.09	714,119,959.17	572,670,192.57	704,166,464.02	750,242,891.51	609,822,385.88	594,277,521.35	576,576,957.51
	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Imports (c.i.f) US\$	480,351,495.87	472,184,316.82	494,671,613.50	483,245,573.29	503,073,124.68	517,995,487.96	533,944,834.87	543,417,767.75
	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Imports (c.i.f) US\$	572,252,776.27	633,269,082.57	556,276,151.33	522,620,007	538,178,171	502,997,558	529,086,320.45	465,892,977.15
	May-15	Jun-15	Jul-15	Aug-15				
Imports (c.i.f) US\$	473,376,188.38	555,082,880.19	496,315,855.0	458,635,869.7				

Source: ZIMSTAT

Table 1f: Total Exports Balances

	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Exports (US\$)	288,743,562	373,029,213	388,786,028	221,313,963	226,974,74	143,866,926	245,169,257	376,849,339
	Jan-12	Feb-12	Mar-12	Apr-12	May-12	Jun-12	Jul-12	Aug-12
Exports (US\$)	258,124,310	255,206,355	310,041,948	227,253,008	278,161,855	232,719,132	338,045,622	449,726,798
	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13
Exports (US\$)	324,343,098	479,941,695	415,207,388	314,872,655	279,555,179.97	279,047,033.21	253,927,213.43	209,914,486.89
	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13	Dec-13
Exports (US\$)	278,314,631.72	244,883,722.02	287,436,036.77	282,668,224.22	308,664,376.66	363,714,306.95	467,471,012.11	251,838,635.33
	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Exports (US\$)	277,563,147.21	192,032,920.99	156,345,608.25	178,576,355.28	183,318,898.20	236,713,622.86	268,353,061.41	317,253,586.99
	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Exports (US\$)	229,225,557.58	371,204,223.66	409,891,547.90	3063,736,610	267,020,357	260,790,963	188,755,985.50	185,693,609.05
	May-15	Jun-15	Jul-15	Aug-15				
Exports (US\$)	137,891,305.41	192,909,656.34	204,893,213.6	142,394,233.1				

Sources: ZIMSTAT

Table 1g: Total Deposits

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Demand Deposits	2,086,622.60	2,045,215.90	1,989,201.50	2,038,302.96	2,011,314.80	2,063,250.80
Saving and Short-Term Deposits	1,353,710.50	1,297,619.00	1,284,243.30	1,325,030.04	1,252,640.40	1,305,501.10
Long-Term Deposits	526,409.40	675,306.60	564,762.50	491,588.70	532,281.50	541,907.50
	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sept-14
Demand Deposits	2,187,480.80	2,216,134.90	2,162,978	2,053,953.30	2,120,481.20	2,130,801.00
Saving and Short-Term Deposits	1,345,518.38	1,414,002.10	1,434,428.20	1,277,632.40	1,354,263.20	1,405,171.50
Long-Term Deposits	697,459.42	695,593.50	726,158.90	892,485.20	847,331.40	852,530.20
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	
Demand Deposits	2,054,661.81	2,082,157.70	2,182,139.20	2,093,086.30	2,237,855.40	
Saving and Short-Term Deposits	1,395,888.80	1,473,507.50	1,497,588.80	1,342,485.20	1,238,419.50	
Long-Term Deposits	986,544.70	929,985.60	864,281.70	1,038,388.80	996,773.30	

	Oct-13	Nov-14	Dec-13	Jan-13	Feb-14	Mar-14
Demand Deposits	2,084,448.30	1,944,000.70	1,959,980.20	2,076,817.80	2,022,120.80	2,074,823.70
Saving and Short-Term Deposits	1,256,126.90	1,246,497.10	1,249,835.60	1,177,329.10	1,242,453.40	1,332,280.44
Long-Term Deposits	611,107.70	616,612.60	722,509.30	634,498.40	757,205.40	686,835.06
	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Demand Deposits	2,202,570.5	2164484.4	2,158,488.80	2,007,554.30	2,017,876.10	2,120,237.80
Saving and Short-Term Deposits	1,391,221.6	1,351,823.4	1,403,151.80	1,393,198.60	1,317,275.60	1,360,751.90
Long-Term Deposits	863,467.6	899,157.8	841,479.60	938,805.50	1,001,638.50	888,036.30

Source: RBZ

Table 1h: Gold Deliveries

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Gold Production (kg)*	1082	1131	1033	1189	1049	1012	1136	1028	1080	937	931	1040
	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Gold Production (kg)*	1039	1021	1019	1248.5	1283.3	1335.9	1268.1	1310.2	1475.5	1111.6	1169.3	1,546.2
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15						
Gold Production (kg)*	1,350.3	1,406.2	1,668.7	1,601.8	1,614.4	1742.2						

Sources: Fidelity Printers and Refineries, * monthly averages

Table 1i: Government Budget

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Revenues (U\$m)	271.0	303.6	395.2	323.0	306.7	353.4	278.2	259.1	380.8	251.7	236.0	317.8
Spending (U\$m)	246.2	340.5	333.2	397.7	314.0	298.7	388.7	305.1	483.02	235.9	264.8	265.7
Balance (U\$m)	24.8	(36.9)	62.0	(74.7)	(7.3)	54.8	(110.6)	(45.9)	(102.3)	15.8	(28.8)	52.1
	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Revenues (U\$m)	285.1	275.8	1,366.4	292.2	306	329.6	306.8	318.9	387,8	272.0	256.4	302.4
Spending (U\$m)	357.6	278.3	1,402.4	345.4	310.2	357.1	344.2	423.2	359.3	398.9	285.3	321.1
Balance (U\$m)	(72.6)	(2.5)	(36)	(53.3)	(4.2)	(27.5)	(37.4)	(104.2)	28.5	(126.9)	(28.98)	(18.7)
	Apr-15	May-15	Jun-15	Jul-15	Aug-15							
Revenues (U\$m)	271.0	258	355.6	315.31	265.91							
Spending (U\$m)	289.9	217.9	409	358.83	277.52							
Balance (U\$m)	(18.9)	40.8	(54.1)	(43.52)	(11.61)							

Sources: Ministry of Finance, Note: monthly averages

Table 2a: Annual Economic Growth

Growth	2008	2009	2010	2011	2012	2013	2014
GDP Growth (%)	-17.7	5.4	11.4	11.9	10.6	4.5	3.1*
GDP (US\$ Million)	4,416	5,899	8289.6	10068	11597*	-	-

Source: ZIMSTAT,* estimates

Table 2b: International Commodity Prices

	2008	2009	2010	2011	2012	2013	2014
Gold (US\$/oz.)	871.64	982.50	1,218.59	1,358.42	1,766.71	1,397.1	1,271.58
Platinum (US\$/oz.)	1,577.00	1,212.25	1,608.23	1,721.92	1,530.71	1,474.50	1,382.40
Brent crude (\$/bl.)	-	-	-	-	111.31	108.41	99.59
Maize (US\$/t) 3YC	-	-	-	291.70	298.40	259.4	192.88
Wheat (US\$/t) HRW	-	-	-	316.30	313.20	312.2	278.95

Source: International Grain Council, World Bank

Table 2c: Trade & Balance of Payments

	2008	2009	2010	2011	2012	2013	2014
Exports - Total Goods (US\$ Millions)	1 660.43	1 613.27	3 245.45	3 557.02	3883.64	3,507.43	3,063.74
Imports - Total Goods (US\$ Millions)	2 629.55	3 213.07	5 864.93	8 594.28	7483.99	7,704.22	6,379,76

Sources: ZIMSTAT

Table 2d: Banks Deposits and Credit

	2009	2010	2011	2012	2013	2014
Deposits (Annual Average) (US\$ Million)	-	-	2,793.73	3,593.81	3,874.71	4,361.86
Bank Credit to Private Sector (Annual Average) (US\$ Million)	-	1,235	2,344	3,100	3,600	2,887
Loan/Deposit Ratio (Annual Average) %	-	-	83%	87.3%	94.1%	86.6%

Sources: ZIMSTAT

Table 2e: Zimbabwe Stock Exchange Indices

	2009	2010	2011	2012	2013	2014
ZSE Industrial Index (End Period)	151.99	151.3	145.86	152.40	202.12	162.79
ZSE Mining Index (End Period)	185.5	200.4	100.7	65.12	45.79	71.71

Source: Zimbabwe Stock Exchange

Table 2f: Business / Production Indicators

	2008	2009	2010	2011	2012	2013	2014
Gold Production (Kg)	3 579.00	4 966.00	-	12993	14735.12	14,065.23	13,908.5
Platinum Production(Kg)	5 495.10	6 848.90	-	10827	10524.24	13,065.64	12,482.73

Source: Zimbabwe Stock Exchange

Table 2g: Government Budget

	2009	2010	2011	2012	2013	2014
Revenues (US\$ Million)	934	2,198	2,770	3,452	3,741	3,815
Spending (US\$ Million)	966	2,228	3,102	3,746	3,987	3,912
Balance (US\$ Million)	(32)	(30)	(332)	(294)	(246)	(96)

Source: Zimbabwe Stock Exchange

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