



## 1. MACROECONOMIC DEVELOPMENTS

### 1.1 Overview of the Economy

The economy is still on a positive growth path, despite attendant challenges that need to be addressed in order to achieve set targets.

The challenges include liquidity shortages, persistent power cuts, recently announced electricity tariff hikes and price increases precipitated by the reintroduction of import duty on some basic commodities on 26 July 2011.

### Real Sector

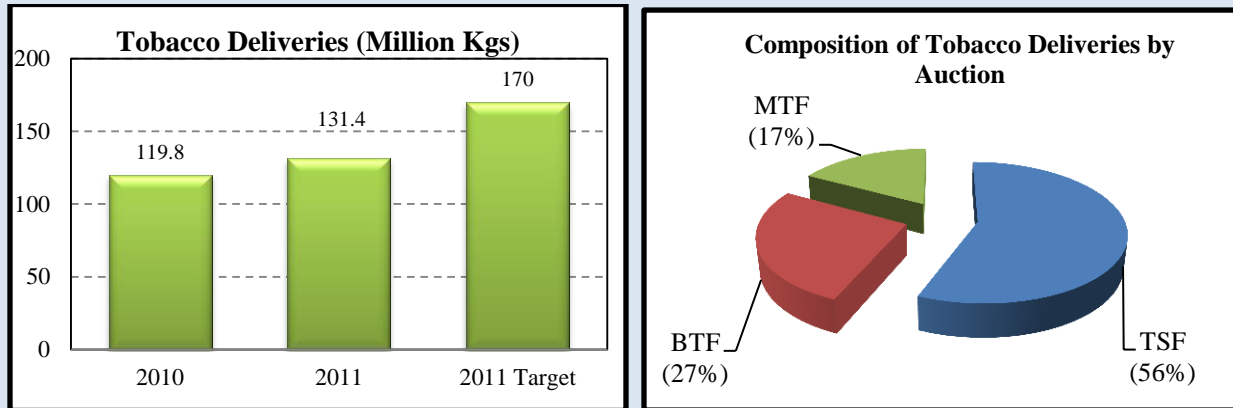
### 1.2 Agriculture Sector Developments

#### Tobacco Deliveries

The 2011 tobacco selling season officially ended on 23 August 2011 with 44% of tobacco delivered through the auction and the balance sold through the contract system. Tobacco Sales Floor (TSF) absorbed 56% of the tobacco sold through the auction,

with the balance sold to Boka Tobacco Floors (27%) and Millennium Tobacco Floors (17%). A total of 131.4 million kgs of tobacco valued at US\$359.6 million were sold up to 23 August 2011 compared to 119.8 million kgs of tobacco worth US\$347.8 million delivered during the corresponding period in 2010. The deliveries realized in 2011, however, fall short of 170 million kgs projected for the year. As such, tobacco deliveries have marginally improved by 9.6% in 2011.

**Figure1: Tobacco Deliveries and Composition of Deliveries by Auction, 2010 and 2011**



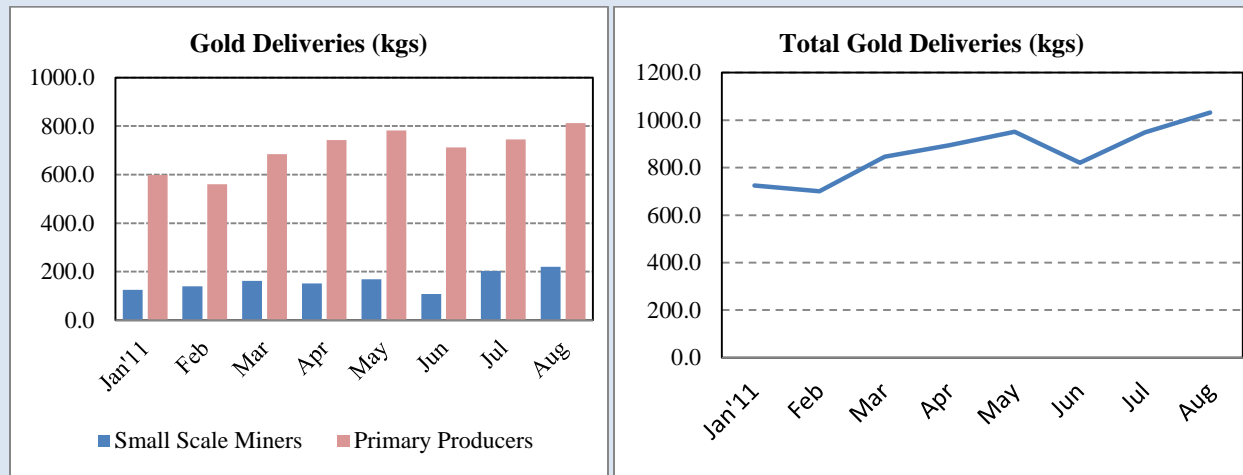
Source: Tobacco Industry Marketing Board (TIMB)

### 1.3 Mining Sector Developments

Gold deliveries for the period January to August 2011 amounted to 6,916.4 kgs comprising deliveries by primary

producers amounting to 18% and small scale producers delivering the remaining 82%. Gold output for 2011 is projected at 13 000 kgs in view of favourable international prices of gold, which stood at US\$1819/oz as of end August 2011.

**Figure 2: Gold Deliveries**



Source: Fidelity Printers and Refiners

### 1.4 Fiscal Performance

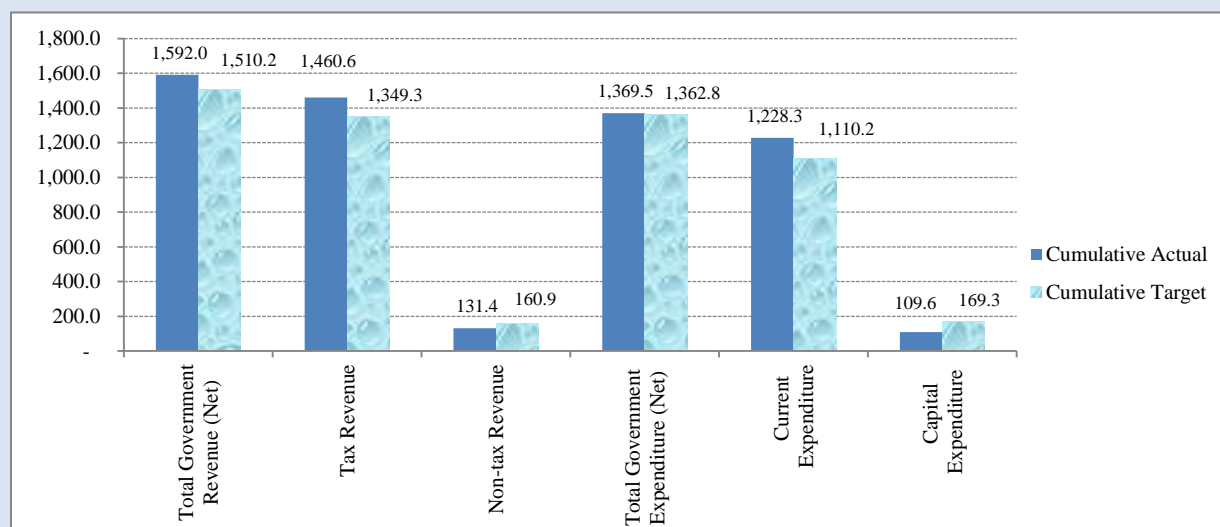
In the first 7 months of 2011, the Government operated within targets in some areas and did not do so in others (Figure 3). In terms of revenue mobilization, actual total revenues collected amounted to

US\$1,592 million which was marginally above the target of US\$1,510.2 million. However, non-tax actual revenues were still below target. In terms of expenditure, actual total expenditures of US\$1,269.5 million

were marginally above the target of US\$1,262.8 million. Actual current expenditure of US\$1,228.3 million was above the targeted US\$1,110.2 million, mainly on account of the increase in employment costs. Total employment costs, which had averaged US\$83.275 million over the first six months of the year, increased to US\$144.666 million in July. Hence, Government will be required to raise an additional US\$188.345 million to cover the increase in employment costs to December 2011. In the absence of additional revenues to cover the increase in employment costs, Government may be forced to compromise

the capital budget, as already reflected in the underperformance of capital expenditure amounting to US\$109.6 million against the target of US\$169.3 million. Continued underperformance of the capital budget may have a negative impact on the realisation of the growth target of 9.3% in 2011. There is therefore need to strengthen measures to mobilize more non-tax revenues and at the same time ensuring that growth enhancing capital expenditures, are scaled up to targeted level, if the growth target of 2011 Budget is to be realised.

**Figure 3: Actual Versus Targeted Fiscal Performance (Jan-July 2011), US\$ Million**

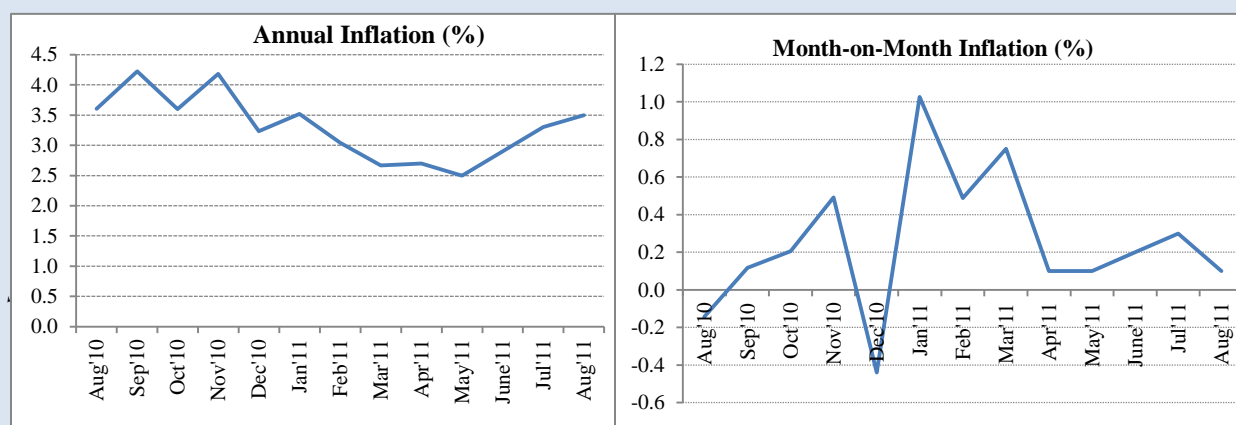


Source: Ministry of Finance

### 1.5 Inflation Developments

Annual inflation increased from 3.3% in July 2011 to 3.5% in August 2011 (figure 4). Annual food and non-food inflation, individually stood at 3.54%. Increases in transport and education costs, among others, largely accounted for the increase in inflation. In addition, the reintroduction of import duty on some basic commodities (maize meal and cooking oil) led to price increases for these commodities. The price hikes, if not reversed, could militate against the achievement of the year end inflation target of 4%. There is need to address these price hikes, given that the import duty reintroduction was aimed at protecting local producers against cheap imports in a bid to support local industry. On a month-to-month basis, inflation declined from 0.3% in July to 0.1% in August (figure 4). This notwithstanding, inflationary pressures still persist in the economy particularly with the recently announced hike in electricity tariffs.

**Figure 4: Annual and Month-on-Month Inflation (August 2011)**



### 1.6 Monetary Developments

Total banking sector deposits, which are net of inter-bank deposits marginally increased from US\$2.90 billion in June 2011 to US\$2.91 billion in July 2011. The term structure of deposits (table 1) is still skewed towards demand and short-term deposits,

which is not favourable for long-term investment. For the economy to grow, there is need for cheaper and long-term finance, which should be channelled towards productive sectors of the economy.

**Table 1: Composition of Banking Sector Deposits in July 2011**

Type of Deposit	US\$ Billion (June 2011)	% of Total Deposits (June 2011)	US\$ Billion (July 2011)	% of Total Deposits (July 2011)
Demand Deposits	1.70	58.7%	1.70	58.3%
Saving and Short-Term Deposits	0.92	31.6%	0.98	33.8%
Long-Term Deposits	0.28	9.7%	0.23	7.9%
<b>Total Banking Sector Deposits</b>	<b>2.90</b>		<b>2.91</b>	

Source: RBZ

### 1.7 Banking Sector Developments

Despite various challenges, the economic environment is still conducive for banks to be profitable. The case of ABC Holdings Limited, which has a multi-country presence, can be used as an example. Among all its subsidiaries in different countries, BancABC Zimbabwe, whose

profits increased by 421% in comparison to the earlier period, was the major contributor to the group's profit during the first six months of 2011. The bank's performance was well ahead of subsidiaries from other countries such as Tanzania, Botswana, Mozambique and Zambia.

However, a hovering threat to banking sector stability is the manner in which the Indigenisation and Economic Empowerment Act would be implemented in the banking sector. Tension arose following a two-week

ultimatum that was issued on the 19<sup>th</sup> of August 2011 by the Government to Barclays Bank Zimbabwe Ltd and Standard Chartered Bank Zimbabwe Ltd, among others, to comply with the indigenization law and

regulations or risk losing their licences. This prompted the RBZ Governor to issue a warning about the likely negative impact of such an ultimatum in the banking sector, which demonstrates the potential of the indigenisation law to destabilise the banking sector. The development came barely two months after some indigenous banks, namely Kingdom Bank, Royal Bank, ZABG, Genesis Investment Bank and ReNaissance Merchant Bank were deemed to have failed to meet the minimum capital

requirements set by the central bank. Genesis Investment Bank was sold to a consortium of new shareholders, who indicated that within a period of three months, the bank would be compliant. Kingdom Bank was also reported to be pursuing recapitalisation initiatives. There is, thus, a need to ensure that the indigenisation drive remains conscious of the need to avoid creating instability in the banking sector.

### 1.8 Interest Rate Developments

Although lending rates have been declining in the last 3 months, the margin between deposit and lending rates is still wide, implying banking sector inefficiencies. In a bid to attract more deposits into the formal banking sector, banks marginally increased deposit rates in July, which is a positive development.

**Table 2: Interest Rate Developments (%)**

Month	Lending Rate	3-Month Deposit Rate	Savings Deposit Rate	Annual Inflation Rate	Real Lending Rate	Interest Rate Margin
Jan-11	30.6	9.3	1.0	3.5	27.1	21.4
Feb-11	30.6	9.3	1.0	3.0	27.6	21.4
Mar-11	30.6	8.3	1.0	2.7	28.0	22.4
Apr-11	30.6	8.6	3.2	2.7	27.9	22.1
May-11	17.0	8.6	2.7	2.5	14.5	8.4
Jun-11	21.5	8.6	2.6	2.9	18.6	12.9
Jul-11	20.9	11.3	2.7	3.3	17.6	9.6
<b>Average</b>	<b>26.8</b>	<b>9.1</b>	<b>2.0</b>	<b>2.9</b>	<b>23.0</b>	<b>16.9</b>

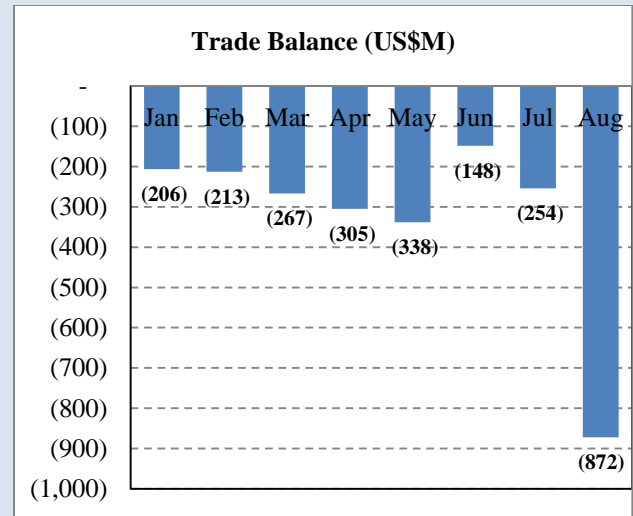
Source: RBZ

### 1.9 External Sector Developments

Exports over the period January to August 2011 amounted to US\$2,697 million which compares unfavourably with imports of US\$5,300 million over the same period. Reflecting the continued absorption of substantial imports by the country, a current account deficit of US\$2,603 million was realized over the period of analysis. The widening trade balance in August is attributed to imports which increased by

142% from US\$517.9 million in July 2011, to US\$1,254.6 million in August 2011 on account of increased fertilizer imports from South Africa ahead of the forthcoming farming season. The widening trade balance continues to exert adverse pressure on the sustainability of the current account particularly on the back of depressed capital inflows.

**Figure 5: External Sector Developments**



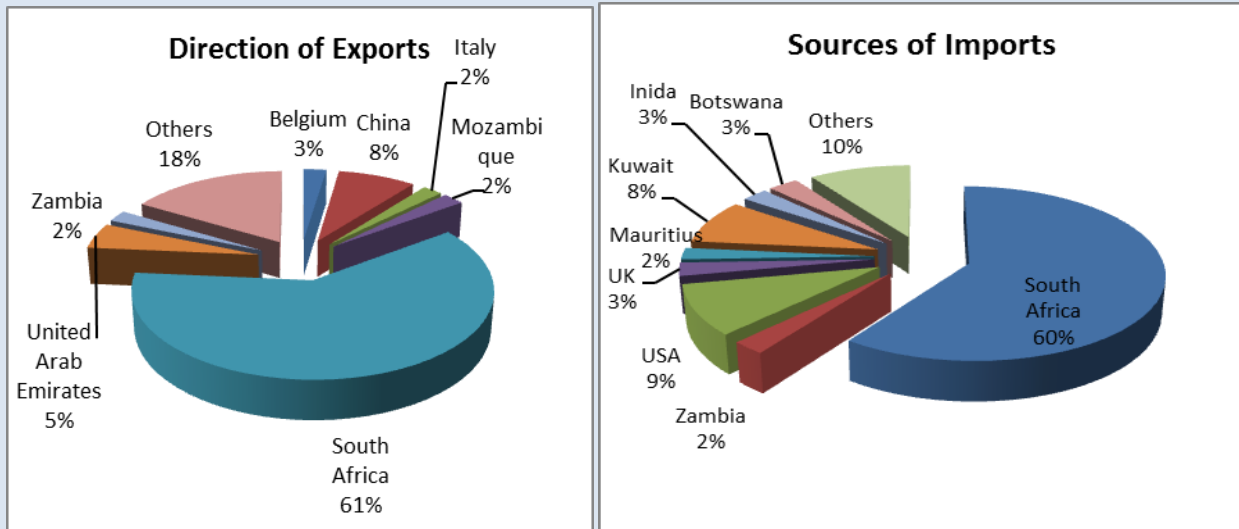
Source: ZIMSTAT

Over the period January-August<sup>1</sup> 2011, the country's exports were largely destined for the South African market, which accounted for 61% of exports. The balance was accounted for by exports to China (8%), United Arab Emirates (5%), Belgium (3%), Mozambique (2%), Italy (2%) and Zambia (2%). China and the United Arab Emirates are emerging as favourable export destinations for the country's products. On the other hand, Zimbabwe sourced the bulk of its imports from South Africa (60%), USA (9%),

Kuwait (8%), UK (3%), India (3%), Mauritius (2%) and Zambia (2%) over the period January-August 2011. Accordingly, the country sourced a total of 74% of its imports from the SADC region reflecting that regional integration initiatives have supported increased trade between Zimbabwe and other member states. This notwithstanding, Zimbabwe remains exposed to developments in the US\$/rand exchange rate, particularly in view of the fact that South Africa remains the country's major trading partner.

<sup>1</sup>The data used excludes the month of July as ZIMSTAT is still reconciling figures with ZIMRA.

**Figure 6: Direction of Exports and Sources of Imports**



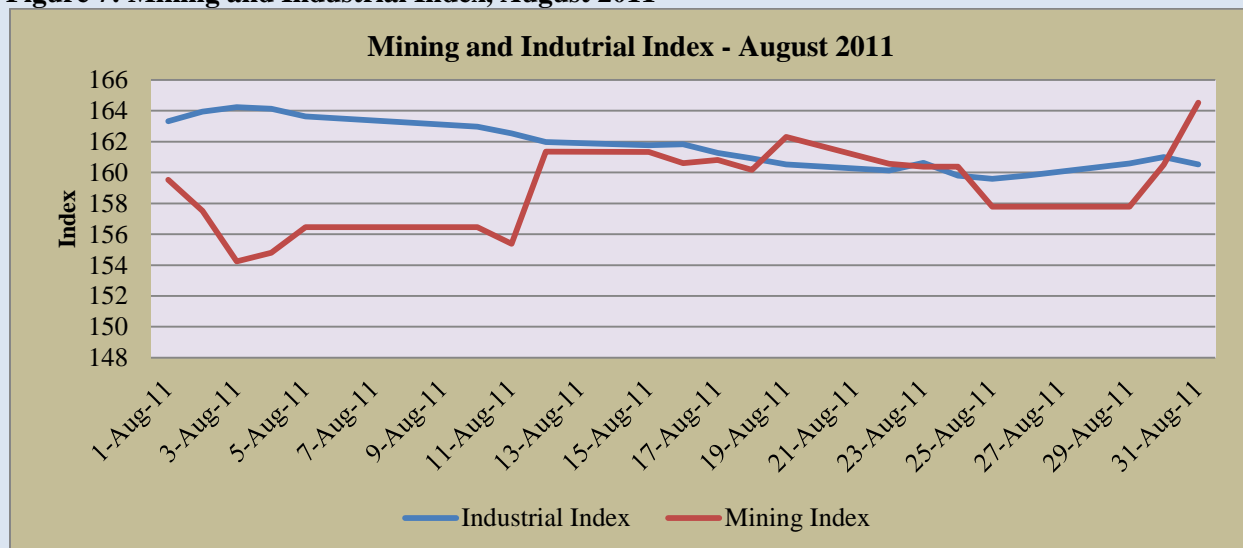
Source: ZIMSTAT

## 2. STOCK MARKET DEVELOPMENTS

**2.1 For the month of August, a total of 318,009,692 shares worth \$42.4 million were traded. This was a decline from 619,769,026 shares worth \$51.3 million traded in the month of July. The industrial index closed the month lower than in July at 160.53, down from 163.69. On the contrary, the mining index closed the month of August at 164.52, up from 160.17 in July. It goes to show the great potential that the sector has in driving the economy, despite the rather adverse operating**

environment. From figure 5, it is clear that the mining index was fluctuating for the month of August compared to the industrial index, which on average, was constant during the same period. On foreign transactions, a total of \$20.5 million worth of shares were bought against \$22.9 million that were sold, indicating a net capital outflow of \$2.4 million. Market capitalization retreated marginally from \$4.17 billion to \$4.11 billion.

**Figure 7: Mining and Industrial Index, August 2011**



Source: ZSE

## 2.2 Corporate Sector Developments

As companies continue to face challenges due to the liquidity crunch, many have resorted to the option of mergers and acquisitions for survival. The Competition and Tariff Commission, which is a statutory regulator with the mandate to approve mergers, approved five mergers and acquisitions in the first seven months of the year, as companies sought to recapitalise as well as meet the indigenisation and economic empowerment regulations. Mergers approved include the FMI and BP Shell merger, a merger involving Pioneer, Unifreight and Swift, the acquisition of a 49.2% stake in Eagle Insurance by FBC

Holdings, the acquisition of 100% stake in Engen Zimbabwe by Chevron Zimbabwe, as well as the take-over of Makro by OK Zimbabwe. In addition, it was reported earlier on in August that Phoenix Consolidated Industries Ltd, a company listed on the Zimbabwe Stock Exchange, had also purchased two subsidiaries of Apex Corporation, McMeekan Founders and Presicion Grinders. Some mergers are also aimed at vertical integration, as a way of ensuring access to raw materials without recourse to the cash system, thereby beating the liquidity challenges.

## 3. OTHER TOPICAL ISSUES

### 3.1 Global Competitiveness Index (GCI)

According to the World Economic Forum's Global Competitiveness Report 2011-2012, Zimbabwe continues to be among the lowest ranked countries, with the overall ranking

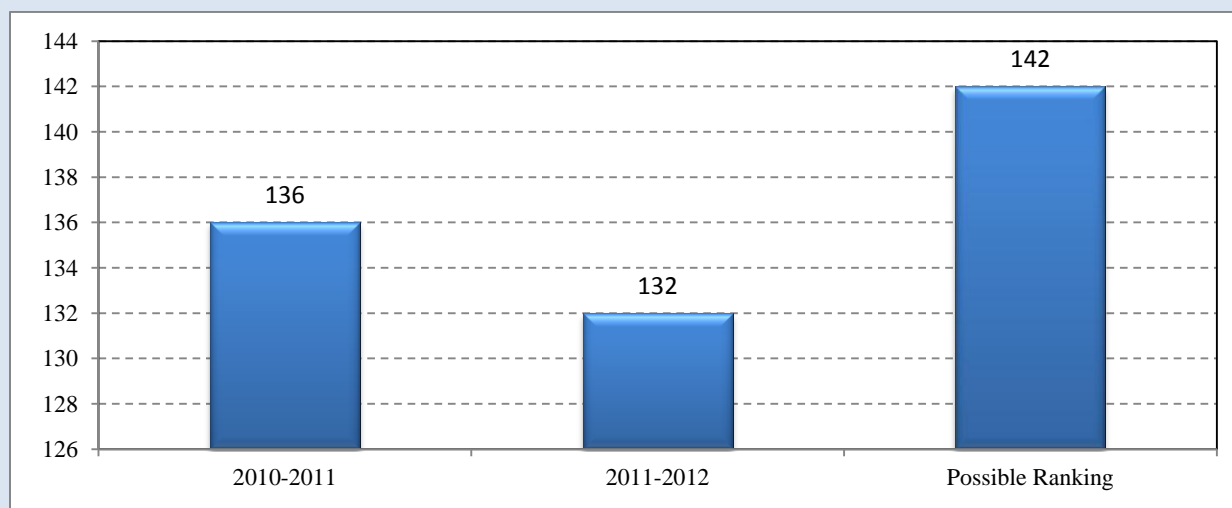
improving marginally from 136<sup>2</sup> to 132 out of 142 countries. Notable improvements have been realized in individual areas such as public

<sup>2</sup> The Global Competitiveness Report 2010-2011 covered 139 economies from all of the world's regions.

institutions, which improved measurably from 125<sup>th</sup> two years ago to 113<sup>th</sup> and 107<sup>th</sup> in 2010-11 and 2011-12, respectively. Specific areas of improvement are ethics and corruption and government inefficiency, although there is still room for improvement. However, there is need to improve other individual areas such as protection of property rights (ranked 140<sup>th</sup>) to enable attraction of potential investors. The Zimbabwean Government needs to create a safe and legally enforceable environment for physical and intellectual property. Despite efforts to improve the economy's macroeconomic environment such as the adoption of the multi-currency system in February 2009, which brought down inflation, the country's macroeconomic environment (ranked 136<sup>th</sup>) and the credit rating (ranked 140<sup>th</sup>) are still unfavourable. The reason could

be that the Government still lacks fiscal space to grow the economy. Hence, the Government needs to continue to negotiate for long-term external lines of credit to enable companies to access relatively cheaper funding for recapitalization. Other weaknesses were identified in the areas of health and low primary educational enrolment rates (ranked 123<sup>th</sup>) and inefficient goods and labour markets ranked 124<sup>th</sup> and 130<sup>th</sup>, respectively. The country has been suffering from lack of adequate medical practitioners in hospitals and other health facilities due to emigration of health professional in search of greener pastures. Despite the country having attained the highest literacy rate in Africa, current educational enrolment rates are still regarded as low.

**Figure 8: Zimbabwe's GCI Ranking, 2010-11 and 2011-12**



*Source: World Economic Forum, Global Competitiveness Report, 2011-2012*

In addition, limited access to finance and inadequate infrastructure (115<sup>th</sup>)<sup>3</sup>, ranks high as the impediments to the country's competitiveness. The low ranking of the country on the Global Competitiveness Index

does not augur well for initiatives geared at attracting foreign direct investment.

<sup>3</sup> The quality of electricity supply ranks 134<sup>th</sup>.

### **3.2 ZESA to Introduce a 31% Electricity Tariff Hike**

The Zimbabwe Electricity Supply Authority (ZESA) intends to introduce a 31 percent increase on electricity tariffs, effective 1 September 2011. The approval of ZESA's request by the Zimbabwe Electricity Regulatory Commission (ZERC)<sup>4</sup> would result in an increase in the average tariff from US cents 7.5 per kilo watt hour to US cents 9.83 per kilowatt hour. The new rates are meant to sustain ZESA's operations since the power utility's infrastructure had collapsed due to sub-economic tariffs, which were charged before the introduction of the multi-currency system. The power utility has since the beginning of September started the installation of pre-paid meters in Harare and Bulawayo. ZESA is owed US\$449 million by household consumers (46%), government (10%) and industry (over 30%). The proposed billing system is meant to enable ZESA to recover the debt.

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<sup>4</sup>A regulator for all companies involved in generation, transmission and distribution of electricity.