The gold price strengthened by 1.08 percent on annual basis to reach USD1,362.8 supported by ongoing geopolitical tensions in the Middle East and Ukraine. Conversely, the platinum price softened by 3.32 percent to average USD 1,444.9 per ounce in August, underpinned by weak economic data from Europe and decline in the Chinese Purchasing Manager Index. Brent crude oil price plunged by 6.1 percent amid abundant market supplies and weak demand. Wheat continued to be subdued in August 2014, owing to larger than expected production in Russia, European Union and China as a result of the excellent weather conditions. Maize price continue to be suppressed by improving expectations of ample supplies in the Northern Hemisphere for the 2014/15 season as a result of the favourable conditions.

Market capitalization grew by 4.59 percent from July to August 2014 buoyed by the performance of stock market which was mostly driven by the foreign investors who accounted for 80.7 percent of the value of shares bought on the local bourse. The RBZ is set to establish a special purpose vehicle for non-performing loans, credit registry system and forums for banks and bank CEOs to share information and review lending rates. This could see interest rates softening. Sectoral concentration of bank loans & advances as measured by the Hirschman-Herfindahl Index increased from 0.140 in June 2011 to 0.152 in June 2014. However, the loan book remains moderately concentrated, thus striking a balance between costs of a highly concentrated and lowly concentrated loan book. A highly concentrated loan book likely reduces monitoring costs than a lowly concentrated loan book involving monitoring a number of distinct sectors.

The decrease in annual inflation was underpinned by the decline in non-food items inflation from 1.91 percent in July 2014 to 1.61 percent in August 2014. On a month on month basis the decline in inflation was buoyed by the decline in both food and non-food inflation rates to 0.81 percent and 0.07 percent during the same period. The downward pressure on imports is expected to continue in 2014, given the policy thrust of government to levy import duty on some products as both a revenue boosting strategy as well as cushioning the local industry against more competitive foreign producers. The decrease in exports could thus be a result of unfavourable commodity prices between the two periods, demonstrating the extent to which the country’s exports are vulnerable hence the need for value addition and beneficiation. Revenue performance remain low with cumulative revenue outturn to July 2014 at 5.69 percent lower than the USD2.150 billion realised over the same period last year. The expenditure mix is highly unsustainable and unsupportive of the government’s growth objectives, with recurrent expenditures of USD1,969.67 billion, accounting for 93.01 percent of the total budget. The external debt which stood at US$8.8 billion at as end of June 2014 continues to weigh down the economy.

In 2014, 8.5 tonnes of refined gold have been exported to the Rand Refinery by August against a target of 13 tonnes for the whole year. The minimum target
of 10 tonnes is required in order to resume exportation of refined gold to the London Bullion Marketers Association. In an effort to boost gold production, the government reduced royalties for primary producers from 7 percent to 5 percent effective 1 October 2014. In addition, presumptive tax on small-scale gold miners was reduced to 0 percent from 2 percent. Conversely, many manufacturing firms with bankable funding proposals are failing to get resources due to the weak banks’ balance sheets. It is therefore expected that the ability of banks to lend for expansion purposes will increase due to the establishment of the Zimbabwe Asset Management Company (ZAMCO) that will have key role in the resolution of non-performing loans. This is anticipated to increase production and exports as banks’ capacity to lend to the productive sectors improves. However, the general creditworthiness limitations for some manufacturing firms would still remain in place, which also demonstrates the need for continued exploration of other means of bailing out distressed manufacturing firms.

Zimbabwe improved its world competitiveness ranking from 131 out of 148 countries in 2013/2014 to 124 out of 144 countries surveyed in 2014/2015. However, public institutions continue to score poorly on issues relating to corruption and the protection of property rights which reduces incentive for businesses to invest in the country. Regional counterparts, like South Africa (56th), Botswana (74th) and Zambia (96th) continue to perform better. Hence, the country needs to seriously address issues such as corruption, property rights, infrastructure which influence investors’ decisions when considering a country as an investment destination. The launching of Harare-Kariba –Victoria Falls flights is expected to boost confidence of both local and foreign visitors in the country’s tourism.

I. OVERVIEW

The country has been experiencing growth in gold production from small scale miners, thanks to the strengthening gold prices. The weakening of platinum prices, however, is a major concern for Zimbabwe as there are high expectations of growth in the country. Brent crude oil plunged amid abundant market supplies and weak demand. As a net importer of maize and wheat, the country tends to benefit from low international wheat prices and suppressed maize prices given its limited fiscal space and liquidity challenges. Unsustainable external debt coupled with a huge recurrent expenditure continues to haunt the economy as the latter accounts for 93 percent of the budget, impacting negatively on the capital budget. The average lending rates are expected to decline if a credit registry system, a special purpose vehicle for non-performing loans and a Forum of Bank Chief Executive Officers are to be implemented as suggested by the Mid-Term Monetary Policy Review. Inflation is expected to slightly increase in the near term due to the recent increase in tax measures imposed on non-food items. Although the downward pressure on imports is expected to continue in 2014, declining exports due to unfavorable commodity prices demonstrates the extent to which the country’s primary exports are vulnerable, hence the need for value addition and beneficiation.

2. REGIONAL ECONOMIC DEVELOPMENTS

2.1 Consolidation of the Southern African Development Community (SADC) Free Trade Area, where is Zimbabwe?

The President of Zimbabwe assumed the SADC chairmanship at the 34th Summit of Heads of State and Government held on 17 - 18 August 2014 in Victoria Falls, Zimbabwe. The Summit ran under the theme: ‘SADC Strategy for Economic Transformation: Leveraging the Region’s Diverse Resources for Sustainable Economic and Social Development through Beneficiation and Value Addition’. A number of issues were discussed at the summit, one of which was an update on implementation of the SADC Free trade area (FTA).

It was noted that the region continues to register slow progress in the consolidation of the SADC FTA. Whilst trade has been steadily growing, having risen between 2000 and 2012 from US$13.5 billion to US$ 58 billion among FTA participating member states and from US$ 14 billion to US$ 66 billion for all SADC countries, intra-SADC trade has remained stagnant at 15 percent of total trade.

Only 7 out of 15 member states have fully liberalized their tariffs. These include the five Southern African Customs Union (SACU) countries (Botswana, Lesotho, Namibia, Swaziland and South Africa), Madagascar and Mauritius while the rest of the SADC...
countries still have outstanding tariff matters to address. Countries like Angola and Democratic Republic of Congo (DRC) are yet to accede to the SADC FTA whilst Seychelles is finalizing its accession process following approval of its tariff offer by the Committee of Ministers of Trade in July 2014. Regional integration in the region continues to be hindered by restrictive rules of origin and prevalent non-tariff barriers, including trade facilitation challenges, hindering the efficient movement of goods across the region.

As a founding member of the SADC region, Zimbabwe achieved 85 percent liberalization in 2008 with the remaining tariff phase down to be completed by 2012. However, due to economic challenges, the country applied for derogation in 2010 and this was to expire in 2014. The 2014 National Budget provided protection of the previously opened market as some of the products protected, which had reached zero percent under SADC FTA, were reversed to the pre-SADC FTA implementation (July 2000) rates. This move can be seen by other Member States as contrary to the direction expected under regional integration. If the Government has not fully regularized within the bilateral, regional and multilateral trade mechanisms which the country is committed to, there is need to do so, as other Member States can either reciprocate or take the country through other dispute settlement mechanisms.

By and large, there is need to step up efforts in boosting the productive capacity of the local industry and reviewing policy that ensures the competitiveness of Zimbabwe’s export products is increased in the face of global competition.

2.2 Regional Inflation

Inflation developments in the SADC region saw Malawi recording the highest inflation rate of 24.5 percent in August 2014, followed by Zambia with an inflation rate of 8 percent. Zimbabwe recorded the lowest inflation rate of 0.15 percent in August 2014 followed by Mozambique at 2.64 percent (Table 1). The country is thus doing relatively well compared to its regional counterparts in disinflation programmes.

<table>
<thead>
<tr>
<th></th>
<th>June 2014</th>
<th>July 2014</th>
<th>August 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>22.5</td>
<td>22.3</td>
<td>24.5</td>
</tr>
<tr>
<td>Zambia</td>
<td>7.8</td>
<td>7.9</td>
<td>8.0</td>
</tr>
<tr>
<td>Angola</td>
<td>6.95</td>
<td>6.89</td>
<td>6.98</td>
</tr>
<tr>
<td>South Africa</td>
<td>6.6</td>
<td>6.3</td>
<td>6.4</td>
</tr>
<tr>
<td>Namibia</td>
<td>6.1</td>
<td>5.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Botswana</td>
<td>4.55</td>
<td>4.5</td>
<td>4.6</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2.75</td>
<td>2.95</td>
<td>2.64</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>(0.08)</td>
<td>0.31</td>
<td>0.15</td>
</tr>
</tbody>
</table>

Source: Trading Economics/Zimbabwe Statistical Agency

3. COMMODITIES PRICES

3.1 Precious Metals

On year on year basis the average gold price increased by 1.08 per cent from USD1,347 per ounce in August 2013 to reach USD1,362.8 in August 2014, platinum price on the other hand declined by 3.32 percent to USD1,444.9 per ounce over the same period (Figure 1).

The Month on month average gold price increased by 3.9 percent from USD1,310.78 per ounce in July 2014. The strengthening of the gold price in August 2014 can be attributed to the ongoing geopolitical tensions in the Middle East and Ukraine as they tend to raise the level of market risk, making investors hold on to gold or buy more of it. Further increases in gold price were, however, undermined by the growth in United States economy as indicated by the gross domestic product (GDP) growth of 4.2 percent in the second quarter compared to a decline of 2.1 percent in the first quarter. The appreciation of the USD against major currencies like Yen, Canadian Dollar and Australian dollar during the month also suppressed the gold price.

The strengthening of gold price, though minute, is a welcome development for Zimbabwe, whose economy is natural resource based. The country has been experiencing growth in production from small scale gold hence the country will realize more revenues from its sales due to the improvement in price.
The platinum price softened by 3.32 percent to USD 1,444.9 per ounce in August 2014 from August 2013. The weakening of platinum prices is a major concern for Zimbabwe as there are currently high expectations on growth in platinum production by the government.

Brent crude oil price plunged by 6.2 per cent amidst abundant market supplies and weak demand.

Wheat continued to be subdued in August 2014, owing to larger than expected production in Russia, European Union and China as a result of the excellent weather conditions.

**3.2 Brent crude oil**

On year on year basis the average Brent crude oil price declined by 6.2 percent from USD110.08 in August 2013 to USD103.21 per barrel in August 2014. On a month on month, the Brent crude oil price declined by 4.67 percent from average of USD08.27 per barrel in July, 2014 (Figure 2). The decline in Brent crude oil price continues to be driven by abundant supplies in the market and weak demand. Brent Crude Oil supplies have been increasing following the agreement to open some Libyan ports and resume exports. The persistent low refinery demand in the Europe and Asia continue to weigh on the Brent Crude oil price.

Despite the significant decline in Brent Crude oil price, Zimbabwe has not been experiencing any reductions in oil prices. The reason may have been that other factors at play in determining local prices such as excise duties and blending dilute the direct impact. On the contrary the government through the Mid Term Fiscal Policy Review recently announced an increase in excise duty of 5 cents effective 15 September 2014, which increases domestic oil prices.

**3.3 Wheat and Maize**

The price of wheat continued to be subdued in the month of August 2014, owing to...
larger than expected production in Russia, European Union and China as a result of the excellent weather conditions. The wheat price improved slightly from USD290 per tonne on 1 August to USD298 on the 6th of August before declining to close the month at USD282 per tonne (Figure 3). However, further decline in the wheat price was restricted by the continued uncertainty around implications of the Ukraine conflict, and also concerns about the Western European wheat crop quality due to continuous rain.

Zimbabwe has been a wheat importer supplied by South Africa, Russia, Ukraine, Canada and is expected to import about 250,000 tonnes for the 2013/14 season.1 With the low international wheat prices, the country tends to benefit as an importer given its tight fiscal space and liquidity challenges.

![Figure 3: Daily Maize and Wheat Export Prices, May – August 2014](source)

Source: International Grain Council

The maize price slightly increased from USD194 per tonne on August 1, to a USD198 on the 7th of August before declining to close the month at USD193 per tonne. The maize price was suppressed owing to expectations of increased supplies in the Northern Hemisphere for the 2014/15 season as a result of the favorable conditions. This is despite the declines in output forecasted in Ukraine, India, Brazil and South Africa.

Zimbabwe’s Agricultural Marketing Authority announced a maize producer price of USD378 per tonne for the 2013/14 agricultural season which is far above the prevailing international export prices. The high producer price threatens viability of industries which rely on domestic maize production in the country. Setting up a producer price that does not stifle the viability of the grain industry and those that depends on its value chain could be a better option. The country is expected to import about 500,0002 tonnes for the 2014/15 season to augment national output and the low international maize prices are good for the country given the financial resource constraints.

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4. MACROECONOMIC OVERVIEW

4.1 Sector Developments

4.1.1 Agriculture

Tobacco Seasonal Sales

Tobacco seasonal sales stood at 215.7 million kg as at 22 August 2014 in comparison to the 165.5 million kg realized over the same period in 2013. This raked in a total of USD684.0 million, compared to USD609.5 million earned same period last year. This crop has huge potential of earn more revenue for the country if Zimbabwe could export more value added tobacco in form of cigarettes as espoused in the economic blue print, the Zimbabwe Agenda for Sustainable Socio Economic Transformation (Zim-Asset).
In 2014, 8.5 tonnes of refined gold have been exported to the Rand Refinery by August against a target of 13 tonnes for the whole year. The minimum target of 10 tonnes is required in order to resume exportation of refined gold to the London Bullion Marketers Association. In an effort to boost gold production, the government reduced royalties for primary producers from 7 percent to 5 percent effective 1 October 2014. In addition, presumptive tax on small-scale gold miners was reduced to 0 percent from 2 percent.

A new National Livestock Development Policy is drafted

The Government has drafted a National Livestock Development Policy that is aimed at stimulating development in the livestock sub-sector in order to increase livestock production and productivity, rural and national income; improve food security and environmental conservation in Zimbabwe. The policy specifically endeavours to create and increase benefits for all stakeholders involved in the various livestock value chains. This policy has come at the opportune time when the national herd is very low and the livestock sector is facing a myriad of challenges. Effective implementation of the policy could ensure that there is increased production in the sector as well as downstream positive impacts, given the backward and forward linkages of the sector and the rest of the economy.

Cotton Seasonal Sales and Opportunities for Value Addition

A total of 130,655,734 kgs of seed cotton had been sold as at 29 August 2014, compared to 138,518,484 kgs sold during the same time last year. This was traded at a price ranging between US$0.50 – US$0.70/kg as compared to US$0.48 – US$0.61/kg offered during the same period last year. Most of cotton lint in Zimbabwe is exported in its raw form, yet the country can strengthen the cotton value chain by promoting value addition of cotton. This will not only earn Zimbabwe the much needed foreign currency (for which cotton is contributing only 7 percent) but can go a long way in employment creation and poverty reduction in Zimbabwe.

4.1.2 Mining

4.1.3 Gold Deliveries

On a year on year basis, total gold deliveries increased by 13.77 percent in August 2014 from 1049.29 kg in August 2013 (Figure 14). Deliveries by primary producers decreased by 3.03 percent to 868.03 kg in August 2014, whilst deliveries by small-scale producers increased by 111.30 percent to 325.75 kg in August 2014. This could have been due to a lower royalty for small scale miners of 3 percent which was effective 1 January 2014 as opposed to a higher royalty of 7 percent for primary producers.

Figure 4: Gold Deliveries, August 2013 - August 2014

Source: Fidelity Printers and Refineries

On a month-on-month basis, total gold deliveries decreased by 4.38 percent from 1248.5 kg in July 2014 to 1193.78 kg in August 2014. Deliveries by primary producers decreased by 3.98 percent from 904 kg in July 2014 to 868.03 kg in August 2014, whilst deliveries by small-scale producers decreased by 5.44 percent from 344.50 kg in July 2014 to 325.75 kg in August 2014. It is anticipated that total deliveries will increase especially by both primary producers and small-scale producers since the government reduced royalties on gold produced by primary producers from 7 percent to 5 percent effective 1 October 2014. In addition, presumptive tax on small-scale gold miners was also reduced to 0 percent from 2 percent. Further, active elution
plants and milling centres not registered as gold buying agents by Fidelity Printers and Refineries were urged to do so in an effort to avoid leakages through smuggling, especially into the neighbouring countries. This measure is also meant to boost the amount of refined gold to reach a minimum target of 10 tonnes by year end in order to facilitate re-accreditation into the London Bullion Marketers Association. In 2014, 8.5 tonnes of gold was refined and exported to the Rand Refinery by August against a target of 13 tonnes by end of 2014. It is most likely that Fidelity Printers and Refineries will probably surpass the minimum target of 10 tonnes required to resume exports to the London Bullion Marketers Association.

4.1.4 Other Mining

The Ministry of Finance and Economic Development, through the Mid-Term Fiscal Policy Review has cut down the mining sector growth forecast to minus 1.9 percent from 10.7 percent due to poor performance of international commodity prices, frequent power outages, obsolete equipment as well as inadequate funding for recapitalization. Although the Minister of Finance and Economic Development noted the weak international prices as the main factor, more needs to be done to create an investor friendly environment in the sector to allow full exploration of resources in an efficient manner.

4.1.5 Manufacturing

Among the notable developments in the manufacturing sector in August was the Annual Congress held by the Confederation of Zimbabwe Industries (CZI) at Amber Hotel, Mutare from the 31st of July 2014 to the 1st of August, 2014. The annual event is held to explore strategies which business can use to ensure that the policy and economic environment facilitates manufacturing. Among the resolutions from the Congress was exploring possible ways of advocating for a reduction on the costs of borrowing for industry, as industry feels that the interest rates are too high. It was noted that while CZI would work with the Bankers Association of Zimbabwe (BAZ) in an effort to iron out challenges and costs in the banking sector, it was also critical that the RBZ deals with non-performing loans. It was felt that the interest rates were mostly high due to the need to factor the high risk of default, based on accumulated debts.

In the month of August 2014, the RBZ also announced a Monetary Policy Statement, which tried to deal with non-performing loans. Banks were failing to perform their mandate of mobilizing resources due to a stockpile of bad loans from business. Although the international benchmark for non-performing loans is 5 percent, they had risen to 18.5 percent as at June 2014, which virtually eroded the ability of banks to issue new debt. The bad loans arose because at dollarization banks were less cautious and extended short term credit which manufacturing firms used to purchase capital and long term assets, which compromised their ability to repay.

The establishment of ZAMCO is a positive step, since there are generally many manufacturing firms which have bankable funding proposals, but were failing to get resources due to the bad position of banks’ balance sheets. It is therefore expected that the ability of banks to lend for expansion purposes will increase, which would also act positively towards increased production and exports. Banks now mostly preferred the services industry and some agriculture activities which augur well with the short term credit at the expense of manufacturing which require longer term funding.

While ZAMCO would give banks a fresh start, the general creditworthiness limitations for some manufacturing firms would still remain in place, which also demonstrates the need for continued exploration of other means of bailing out distressed manufacturing firms. Given that banks would continue to be cautious due to the fear of falling into the same trap, it is likely that access to funding would still remain a concern for industry. Manufacturing firms should thus continue to explore innovative ideas which they can sell to banks to secure the loans that they would borrow, especially since most of their plants and equipment are in poor state and are no longer acceptable as collateral.

4.1.6 Tourism

The government expressed commitment to strengthening the commercial viability and operations of the national carrier Air Zimbabwe in the National Tourism Policy recently launched in July. In line with the government objective, Air Zimbabwe is exhibiting signs of recovery as reflected by the expansion of its coverage in the domestic market. The national airline launched the Harare-Kariba-Victoria Falls route with flights scheduled twice per day, 3 days per week commencing the 1st of August 2014.

Many manufacturing firms with bankable funding proposals are failing to get resources due to the bad position of banks’ balance sheets. It is therefore expected that the ability of banks to lend for expansion purposes will increase due to the establishment of ZAMCO. However, the general creditworthiness limitations for some manufacturing firms would still remain in place, which also demonstrates the need for continued exploration of other means of bailing out distressed manufacturing firms.

The launching of Harare-Kariba –Victoria Falls flights will help boost confidence of both local and foreign visitors in the country’s tourism.
The new route now provides tourists and travelers with a more efficient, fast and direct link to two of the country’s major tourist attractions. Prior to the launch, the airline had only been servicing the Harare- Bulawayo, Harare -Victoria Falls domestic routes.

The recovery of national airline is important for the country’s tourism development as it helps restore confidence of both local and foreign visitors in the country. It is therefore important for the national airline to operate the domestic routes professionally and efficiently to avoid losing confidence with customers. The national airline should charge competitive fares and also improve on methods of payment in order to encourage growth of domestic tourism. There is need for the government to also prioritize modernization of the Air Zimbabwe fleet as most of it has become obsolete.

At the regional level, Fastjet a Tanzanian based airline began operating the first direct flights between Harare and Dar es Salaam, Tanzania in the month of August 2014. Previously travellers had to connect via other cities in the region or use road transport. The direct flights by Fastjet is a welcome development as it will promote growth of Zimbabwe’s tourism as well as trade of the two countries.

### 4.2 The Financial and Monetary Sector

#### 4.2.1 Stock Market

The industrial index opened trading at 189.52 in the month of August 2014, gaining 6.91 points (3.65 percent) before closing the month at 196.43. The mining index opened trading at 94.45, gaining 10.35 points (10.96 percent) to close the month at 104.8. The top gainers for the month of August included Radar Holdings Limited, Art Corporation and Hwange who gained 150 percent, 100 percent and 66.67 percent respectively. The top losers were Masimba Holdings and NMBZ Holdings Limited, who lost 36.17 percent and 30 percent, respectively.

A monthly comparison of stock market activities shows that both turnover value and volume increased by 163.23 percent and 1.78 percent, respectively between July and August 2014. Turnover was largely driven by foreign investors who accounted for 80.7 percent of the value of shares bought. Buoyed by the performance of the stock market, market capitalisation grew by 4.59 percent from USD 4.96 billion in July to USD 5.19 billion in August 2014.

Figure 5: ZSE Industrial and Mining Indices, August, 2013 and 2014

![Graph showing ZSE Industrial and Mining Indices](image)

Source: Zimbabwe Stock Exchange (2014)

On a year on year comparison, the industrial index closed at 196.43 in August 2014, surpassing its performance by 14.76 points from the August 2013 figure of 181.67. On the other hand the mining index showed tremendous progress closing at 104.8 surpassing its August 2013 performance by 56.07 points (Figure 4). The performance of the industrial index was buoyed by the performance of Bindura Nickel Corporation shares which rose by 411.05 percent from 1.81 cents (as at 30 August 2013) to 9.25 cents (as at 29 August 2014).
An annual comparison of stock market turnover showed that turnover value rose by 22.57 percent, whilst turnover volume declined by 19.77 percent in August 2014 from their August 2013 levels (Table 2). The volume of shares traded by foreign investors as indicated by the volume of shares bought and sold by foreigners declined by 24.65 percent and 47.42 percent respectively. On the other hand the value of shares bought by foreigners rose by 60.92 percent whilst the value of shares sold declined by 56.28 percent (Table 2).

### 4.2.2 Interest Rates

Commercial bank weighted average lending rates for both individuals and corporates softened from 14.39 percent and 9.65 percent in July 2013 to 14.33 percent and 9.45 percent, respectively, in July 2014. Merchant bank weighted average lending rates for individuals and corporates tightened from 17.70 percent and 16.97 percent in July 2013 to 19.00 percent and 18.00 percent, respectively, in July 2014 (Table 3).

### Table 2: Summary Statistics for the Zimbabwe Stock Exchange, August 2013 and 2014

<table>
<thead>
<tr>
<th>Date</th>
<th>Aug-13</th>
<th>Aug-14</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Value (USD)</td>
<td>54,171,005.73</td>
<td>66,399,632.85</td>
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</tr>
<tr>
<td>Turnover Volume</td>
<td>409,010,299</td>
<td>328,161,452</td>
<td>(19.77)</td>
</tr>
<tr>
<td>Value of Shares bought by foreigners (USD)</td>
<td>33,314,375.97</td>
<td>53,609,081.29</td>
<td>60.92</td>
</tr>
<tr>
<td>Value of Shares sold by foreigners (USD)</td>
<td>29,176,388.70</td>
<td>12,755,891.44</td>
<td>(56.28)</td>
</tr>
<tr>
<td>Volume of Shares bought by foreigners</td>
<td>124,958,508</td>
<td>94,151,933</td>
<td>(24.65)</td>
</tr>
<tr>
<td>Volume of Shares sold by foreigners</td>
<td>89,292,441</td>
<td>46,953,052</td>
<td>(47.42)</td>
</tr>
<tr>
<td>Market Capitalization (USD)</td>
<td>4,682,265,065</td>
<td>5,186,634,353</td>
<td>10.77</td>
</tr>
</tbody>
</table>

Source: Zimbabwe Stock Exchange (2014)

The average lending rates are expected to decline if the measures spelt out in the 2014 Mid-Term Monetary Policy Review by the RBZ are implemented. These include the establishment of a credit registry system, a special purpose vehicle (SPV) for non-performing loans, and Forums for Bank Chief Executive Officers and banks to review among other things interest rates and ways of promoting banking sector efficiency. The credit registry system is expected to reduce lending rates through enhancement of borrowers’ reputational collateral and reduction in the risk premium associated with information asymmetry in borrowers’ credit history. The special purpose vehicle

### Table 3: Interest Rate Levels (Annual Percentages), July 2013 – July 2014

<table>
<thead>
<tr>
<th>End period</th>
<th>Commercial banks lending rates</th>
<th>Merchant banks lending rates</th>
<th>3-Month deposit rate</th>
<th>Savings deposit rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nominal rate</td>
<td>Weighted average rate</td>
<td>Nominal rate</td>
<td>Weighted average rate</td>
</tr>
<tr>
<td></td>
<td>Individuals</td>
<td>Corporates</td>
<td>Individuals</td>
<td>Corporates</td>
</tr>
<tr>
<td>Jul-13</td>
<td>6.00-35.00</td>
<td>14.39</td>
<td>9.65</td>
<td>15.00-28.00</td>
</tr>
<tr>
<td>Aug-13</td>
<td>6.00-35.00</td>
<td>13.82</td>
<td>9.32</td>
<td>15.00-23.00</td>
</tr>
<tr>
<td>Sep-13</td>
<td>6.00-35.00</td>
<td>14.03</td>
<td>9.37</td>
<td>15.00-22.50</td>
</tr>
<tr>
<td>Oct-13</td>
<td>6.00-35.00</td>
<td>13.95</td>
<td>9.25</td>
<td>15.00-23.00</td>
</tr>
<tr>
<td>Nov-13</td>
<td>6.00-35.00</td>
<td>14.18</td>
<td>9.40</td>
<td>15.00-23.00</td>
</tr>
<tr>
<td>Dec-13</td>
<td>6.00-35.00</td>
<td>14.13</td>
<td>9.35</td>
<td>15.00-23.00</td>
</tr>
<tr>
<td>Jan-14</td>
<td>6.00-35.00</td>
<td>14.09</td>
<td>9.30</td>
<td>15.00-23.00</td>
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<tr>
<td>Feb-14</td>
<td>6.00-35.00</td>
<td>14.08</td>
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<tr>
<td>Mar-14</td>
<td>6.00-35.00</td>
<td>14.24</td>
<td>9.27</td>
<td>15.00-23.00</td>
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<td>Apr-14</td>
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<td>May-14</td>
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<td>Jun-14</td>
<td>6.00-35.00</td>
<td>14.44</td>
<td>9.33</td>
<td>15.00-23.00</td>
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<tr>
<td>Jul-14</td>
<td>6.00-35.00</td>
<td>14.33</td>
<td>9.45</td>
<td>15.00-23.00</td>
</tr>
</tbody>
</table>

Average: 14.18 | 9.34 | 18.70 | 17.59

Source: Reserve Bank of Zimbabwe (RBZ) Monthly Economic Review
for non-performing loans is expected to make banks attractive to cheaper sources of funding through cleaning up their balance sheets. Forums for bank Chief Executive Officers and banks would enable sharing of information on improving efficiency and provide a platform for monitoring levels of interest rates.

4.2.3 Monetary Developments

Annual growth in broad money supply (M3), defined as total banking sector deposits (net of inter-bank deposits), increased from 4.3 percent in July 2013 to 9.6 percent in July 2014 (Figure 5). However, month-on-month M3 growth further declined from -0.1 percent in June 2013 to -2.3 percent in July 2014. The decline in month-on-month M3 growth is partly explained by the transfer of the Exchequer Account from CBZ Bank to the RBZ, subsequently leading to the exclusion of USD 44.98 million Government deposits from broad money aggregates.

Figure 6: Monetary Developments (M3), July 2013 – July 2014

![Graph showing annual money supply growth and month-on-month money supply growth](source: RBZ Monthly Economic Review)

Annual total banking sector deposits increased from USD 3.85 billion in July 2013 to USD 4.22 billion in July 2014 (Figure 6). On a month-on-month basis, total banking sector deposits declined from USD 4.32 billion in June 2014 to USD 4.22 billion in July 2014.

Figure 7: Level and Growth Rate of Total Banking Sector Deposits, July 2013 to July 2014

![Graph showing level and growth rate of total banking sector deposits](source: RBZ Monthly Economic Review)

The decline of deposits on a month-on-month basis reflects the decline in demand deposits and savings & short-term deposits by 5 percent and 10.9 percent, respectively (Table 4). However, long term deposits increased by 22.90 percent to partly offset the decline in deposits.
As at end of July 2014, the proportion of long-term deposits in total bank deposits was 21.13 percent which is the highest since July 2010. On the other hand, demand deposits constituted 48.62 percent in total deposits while savings and short-term deposits constituted 30.25 percent (Figure 7).

Table 4: Composition of Total Banking Sector Deposits (USD billion), May – July 2014

<table>
<thead>
<tr>
<th>Type of deposit</th>
<th>May 2014</th>
<th>June 2014</th>
<th>July 2014</th>
<th>Monthly increase (absolute) USD billion</th>
<th>Monthly increase (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Deposits</td>
<td>2.22</td>
<td>2.16</td>
<td>2.05</td>
<td>(0.109)</td>
<td>(5.04)</td>
</tr>
<tr>
<td>Saving &amp; Short-Term Deposits</td>
<td>1.41</td>
<td>1.43</td>
<td>1.28</td>
<td>(0.157)</td>
<td>(10.93)</td>
</tr>
<tr>
<td>Long-Term Deposits</td>
<td>0.70</td>
<td>0.73</td>
<td>0.89</td>
<td>0.166</td>
<td>22.90</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>4.33</td>
<td>4.33</td>
<td>4.22</td>
<td>(0.099)</td>
<td>(2.30)</td>
</tr>
</tbody>
</table>

Source: RBZ Monthly Economic Review

The loan-to-deposit ratio, calculated on the basis of total bank deposits as well as external and domestic sources of funding declined from 95.3 percent in July 2013 to 87.7 percent in July 2014 (Figure 8). The decline largely reflects a conservative lending approach by banks on the back of high non-performing loans which stood at 18.5 percent as at end June 2014. Non-performing loans are a source of concern for financial stability and lead to a decrease in credit growth which undermines current economic recovery efforts. On a month-on-month basis, loan-to-deposit ratio increased from 83.3 percent in June 2014 to 87.7 percent in July 2014, mainly reflecting a greater proportionate decrease in the deposit base.

The distribution of bank loans and advances to the private sector was dominantly to agriculture (19.41 percent) while mining registered the least (7.52 percent) (Figure 9).
Sectoral concentration of bank loans & advances as measured by the Hirschman-Herfindahl Index increased from 0.140 in June 2011 to 0.152 in June 2014. However, the loan book remains moderately concentrated, thus striking a balance between costs of a highly concentrated bank loans and advances and lowly concentrated loan book. A highly concentrated loan book likely reduces monitoring costs than a lowly concentrated loan book involving monitoring a number of distinct sectors.

Table 5: Sectoral concentration of bank loans & advances

<table>
<thead>
<tr>
<th>Period</th>
<th>Hirschman-Herfindahl Index (HHI)</th>
<th>Gini coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jun 11</td>
<td>0.140</td>
<td>0.229</td>
</tr>
<tr>
<td>Jun 12</td>
<td>0.147</td>
<td>0.242</td>
</tr>
<tr>
<td>Jun-13</td>
<td>0.146</td>
<td>0.238</td>
</tr>
<tr>
<td>Jun-14</td>
<td>0.152</td>
<td>0.245</td>
</tr>
</tbody>
</table>

The Gini coefficients also confirm the increase in concentration of bank loans and advances over the period June 2011 to June 2014 (Table 5). It also confirms moderate concentration of loans and advances across sectors.4

4.2.4 Other Financial Sector

According to the RBZ Mid-Term Monetary Policy Review of July 2014, the banking sector has remained safe and sound despite some challenges facing the sector. Out of 19 operational banking institutions (excluding the Post Office Savings Bank), 14 were in compliance with minimum capital requirements and 12 had a net operating surplus as at end June 2014. There are four distressed banking institutions namely Metbank, Allied Bank, AfrAsia and Tetrad. These banking institutions are saddled with liquidity and solvency challenges due to a difficult macroeconomic environment and institution specific factors. One of the major challenges facing the banking sector is high levels of non-performing loans threatening the stability of the sector and credit growth. Relative to other similar low income countries in the region, Zimbabwe’s level of non-performing loans in 2012 and 2013 has been more than twice the level in other countries (Table 6).

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3 HHI ≤ 0.1 shows very low concentration, 0.1 < HHI ≤ 0.18 shows moderate concentration, 0.18 < HHI < 1 shows very high concentration and HHI = 1 shows full concentration.

4 GI ≤ 0.20 shows low concentration, 0.2 < GI < 0.30 shows moderate concentration, 0.3 < GI < 0.40 shows high concentration, GI ≥ 0.40 shows very high concentration and GI = 1 shows complete concentration.
The decrease in annual inflation was underpinned by the decline in non-food items inflation from 1.91 percent in July 2014 to 1.61 percent in August 2014. On a month on month basis the decline in inflation was buoyed by the decline in both food and non-food inflation rates to 0.81 percent and 0.07 percent during the same period.

4.3 Inflation

Year on year inflation rate for the month of August 2014 stood at 0.15 percent, a decrease by 0.16 percentage points from the July 2014 rate of 0.31 percent. The decrease in annual inflation was underpinned by the decrease in the price of non-food items from 1.91 percent in July 2014 to 1.61 percent in August 2014 whilst annual food and non-alcoholic beverages inflation gained 0.09 percentage points from -2.88 percent in July 2014 to -2.79 percent in August 2014 (Figure 10).

Factors underpinning the decline in annual non-food inflation in August 2014 were in the following: Miscellaneous Goods & Services (-2.76 percent), Furniture & Equipment (-2.23 percent), Furnish, House Equipment & Routine Maintenance (-1.44 percent) and Recreation & Culture (-0.78 percent. On the other hand price increases were noted in the following categories; Alcoholic Beverage & Tobacco (2.02 percent), Restaurants & Hotels (0.88 percent), Transport (0.75 percent) and Health (0.55 percent).

On a month on month comparison, the monthly inflation rate for August 2014 stood at -0.31 percent shedding 0.32 percentage points from the July 2014 rate of 0.01 percent. The decline in month on month inflation was buoyed by the decline in both food and non-food inflation which shed 0.35 percentage points and 0.31 percentage points to -0.81 percent and -0.07 percent respectively (Figure 11). The decline in monthly inflation rate was underpinned by the decline in the price of the following items; Miscellaneous Goods & Services (-1.21 percent), Alcoholic Beverages & Tobacco (-0.15 percent), Furniture & Equipment (-0.14 percent) and Furnish, House Equipment & Routine Maintenance (-0.11 percent). Despite these decreases, price increases were noted in the following; Transport (0.27 percent), Health

### Table 6: Country comparison of Bank non-performing loans to total gross loans (percent), 2009 - 2013

<table>
<thead>
<tr>
<th>Country</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>8.1</td>
<td>6.8</td>
<td>4.7</td>
<td>4.4</td>
<td>4.9</td>
</tr>
<tr>
<td>Mozambique</td>
<td>1.8</td>
<td>1.9</td>
<td>2.6</td>
<td>3.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Rwanda</td>
<td>13.1</td>
<td>11.3</td>
<td>8.2</td>
<td>6.0</td>
<td>7.0</td>
</tr>
<tr>
<td>Uganda</td>
<td>4.2</td>
<td>2.1</td>
<td>2.2</td>
<td>4.2</td>
<td>6.0</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1.8</td>
<td>4.7</td>
<td>7.4</td>
<td>13.5</td>
<td>15.9</td>
</tr>
</tbody>
</table>

Source: World Bank Data Bank and RBZ
The downward pressure on imports is expected to continue in 2014, given the policy thrust of government to levy import duty on some products as both a revenue boosting strategy as well as cushioning the local industry against more competitive foreign producers. The government could also develop incentives to boost investment into the local vehicle assembly industry as a strategy to reducing the import bill.

The decrease in exports could thus be a result of unfavorable commodity prices between the two periods, demonstrating the extent to which the country’s exports are vulnerable hence the need for value addition and beneficiation.

4.4 External Sector

In 2014, total imports to July were about USD3.5 billion, having decreased by about 20.9 percent compared to the same period in 2013 (Figure 12). The downward pressure on imports is expected to continue in 2014, given the policy thrust of government to levy import duty on some products as both a revenue boosting strategy as well as cushioning the local industry against more competitive foreign products. A look at the major drivers of imports reveals that it is mostly fuel and lubricants which constitute the bulk of imports, as they constituted about 24 percent of total imports during the first seven months of 2014. Motor vehicles (including tractors, trucks and motor cycles) also contribute significantly to imports at 8 percent of total imports while medical equipment and accessories contributed 5 percent with maize and fertilizer contributing 3 percent each.

While fuel and medical items are difficult to control, ensuring that local fertilizer companies enhance their production and competitiveness as well as exploring methods of enhancing maize production could be critical strategies to reduce the import bill. In line with trying to reduce the import bill for vehicles, the government through the 2014 Mid Term Fiscal Policy Review will increase customs duty for motor vehicles of engine capacity of below 1500 cc from 25 percent to 40 percent and other tax measures imposed on non-food items is expected to marginally increase inflation.

During the same period, exports totalled about USD1.5 billion having decreased by about 18.3 percent compared to the same period in 2013 (Figure 12). The decrease in exports is discouraging, especially at this time when the current account is in a deficit. Zimbabwe exports during the period were primarily driven by raw and semi-manufactured minerals (mostly dominance by gold and diamond) which constituted about 45 percent of all exports. Tobacco and cigarettes also played a very significant role, contributing about 17 percent of total exports during the period. The decrease in exports could thus be a result of unfavorable commodity prices between the two periods, demonstrating the extent to which the country’s exports are vulnerable. Measures to boost exports that can be pursued include value addition of these primary agricultural and mineral products that the country has some comparative advantage in producing. Value addition would increase the value of the products and also cushion the country against fluctuations in commodity prices. Policy incentives for value addition would go a long way in attracting the investment in machinery needed for value addition.
Revenue performance remain low with cumulative revenue outturn to July 2014 at 5.69 percent lower than the USD2.150 billion realized over the same period last year. The expenditure mix is highly unsustainable and unsupportive of the government’s growth objectives, with recurrent expenditures of USD1,969.67 billion, accounting for 93.01 percent of the total budget.

4.5 Fiscal Policy

Revenues outturn

Government monthly revenue outturn peaked to USD369.21 million in June 2014, mainly on account of half-year corporate tax payments, before falling to USD292.17 million in July 2014, (Figure 13). Cumulative revenue collections to July 2014 amounted to USD2,027 billion, 7.07 percent lower than the target of USD2.182 billion. Furthermore, the cumulative revenue outturn to July 2014 was 5.69 percent lower than the USD2.150 billion realized over the same period last year. The continued monthly lower-than expected revenue performance in 2014 can be attributed to the concomitant macroeconomic challenges, including company closures; reflecting lower corporate tax outturn and liquidity constraints; and weak domestic demand, manifesting through lower outturn from consumptive taxes.

Figure 13: Export and imports, January – July 2013 and 2014

![Revenue and Expenditure Performance Chart]

Source: Zimbabwe National Statistics Agency

Figure 14: Revenue and Expenditure Performance (USD Millions), January - July 2014

![Revenue and Expenditure Performance Chart]

Source: Ministry of Finance and Economic Development

Among the key revenue heads that missed targets contributing to overall revenue under-performance, included, Value Added Tax (-20.20 percent), Customs duty (-27.88 percent), Corporate tax (-10.06 percent) and Excise duty (-7.53 percent). On the positive side, Pay As You Earn and other indirect taxes surpassed targets by 24.03 and 22.37 percent, respectively, reflecting, in part, salary increments for the public service and increased remuneration audits by the Zimbabwe Revenue Authority (ZIMRA).

Expenditure Outturn

Government incurred expenditure overruns for the fourth consecutive month in July 2014 of USD53.27 million. Cumulative expenditures to July 2014 amounted to USD2,117.60 billion against total revenues of USD2,027.76 billion, giving a cumulative cash deficit of USD89.84 million, approximately 0.67 percent of GDP. Whilst the primary deficit has largely been kept minimal, the Government’s medium-to-long term fiscal policy should largely focus on rebuilding fiscal buffers, which remain inadequate, whilst at the same time realigning the expenditure mix towards more growth enhancing capital expenditures. Currently, recurrent expenditures of USD1,969.67 billion, accounted for 93.01 percent of total expenditure, with the remainder being capital
Government will revise its debt resolution strategy by seeking to negotiate for debt relief with major Paris Club creditors.

Zimbabwe improved its world competitiveness ranking from 131 out of 148 countries in 2013/2014 to 124 out of 144 countries surveyed in 2014/2015. However, public institutions continue to score poorly on issues relating to corruption and the protection of property rights which reduces incentive for businesses to invest in the country. Compared to its regional counterparts, South Africa (56th), Rwanda (62nd), Botswana (74th) and Zambia (96th) continue to perform better. Hence, the country needs to seriously address issues such as corruption, protection of property rights, and upgrading of infrastructure which influence investors’ decisions when considering a country as an investment destination.

expenditures, which is highly unsustainable and unsupportive of the government’s growth objectives.

4.6 Debt and Arrears Situation

Zimbabwe is saddled with an unsustainable external debt overhang amounting to US$8.8 billion as at end June 2014. In the Mid Term Fiscal policy it was highlighted that the government will revise its debt resolution strategy seeking to negotiate for debt relief with major Paris Club creditors and preparing with an interim Poverty Reduction Strategy Paper (PRSP). Thus in the first half of 2014 the government’s made loan repayments amounting to US$180.4 million and US$17.8 million in interest payments. On the other hand government seeks to assume the RBZ debt of US$1.35 billion through the RBZ Debt Assumption Bill which is currently under public hearing by the Parliamentary Committee on Budget. This will ensure stability of the bank; however this will have a downside risk of increasing the Government of Zimbabwe debt obligations when it seeks to retire the debts.

5. TOPICAL ISSUES

5.1 Zimbabwe Improved its Global Competitiveness Ranking

Zimbabwe improved its world competitiveness ranking from 131 out of 148 countries in 2013/2014 to 124 out of 144 countries surveyed in 2014/2015. The World Economic Forum (WEF) defines competitiveness as the set of institutions, policies and factors that determine the level of productivity of a country. The productivity level determines the level of prosperity that can be earned by an economy. The Global Competitiveness Index is composed of various forms of competitiveness captured in 12 pillars namely: institutions; infrastructure; macroeconomic environment; health and primary education; higher education and training; goods market efficiency; labour market efficiency; financial market development; technological readiness; market size; business sophistication and innovation.

According to the WEF Global Competitiveness Report 2014-2015, Zimbabwe’s public institutions continue to score poorly on issues relating to corruption, government favoritism, and the protection of property rights which reduces incentive for businesses to invest (138th). Although the country has done well in bringing down inflation since dollarization in 2009, it continues to be ranked low on the macroeconomic environment because of high government debt, a negative savings rate, and very low inflation (87th). There are also weaknesses in areas such as health (129th) and low education enrollment rates, with only every second child participating in secondary education. The country’s formal markets continue to function with difficulty, particularly goods and labour markets, which are ranked at 133rd and 137th respectively.

Compared to its regional counterparts, Zimbabwe only ranks better than Mozambique (133rd) and Malawi (132nd) but falls short when compared to South Africa (56th), Rwanda (62nd), Botswana (74th) and Zambia (96th).

The assessment of competitiveness, though subjective in nature, provides comprehensive assessment worldwide. The competitiveness assessment is of paramount importance as it provides a platform for dialogue between government, business and civil society about the actions required to improve economic prosperity. Zimbabwe therefore needs to address issues highlighted in the Global Competitiveness Report 2014-2015 such as corruption, property rights, infrastructure which influence investors’ decisions when considering a country as an investment destination.