Zimbabwe continued to operate under a difficult economic environment in December 2014. In particular, key sectors of the economy failed to perform as expected given the country’s economic potential. The mining index gained 56.61 percent while the industrial index was the worst performer, losing 19.41 percent. Zimbabwe continued to record the lowest inflation rate at -0.80 percent within the SADC region. However, the low inflation is not induced by high levels of supply but is mainly a result of effects of depressed demand due to liquidity constraints facing the economy.

The falling international commodity prices in 2014 negatively affected the contribution of the mining sector as a major economic driver of economic growth. Compared to the same period in 2013, gold price declined by 1.82 percent in December 2014 to average USD1,201.08 per ounce, whilst platinum price fell by 10.26 percent to average USD1,217.98 per ounce. This evidently affected mining sector earnings. Whilst international fuel prices have been constantly declining, the fuel prices in the country have been sticky downwards. While the downstream petroleum sector has generally been deregulated, Government introduced retail price ceilings of USD1.44 per litre and USD1.32 per litre for petrol and diesel respectively to deal with collusive behaviour that is being observed in this sector. However, stakeholders in the petroleum industry, government and the Energy regulators are still engaging in discussions on fuel win-win pricing models that will ensure that the country benefits from the slump in global fuel prices while at the same time ensuring that the players in the sector remain competitive.

In the real sector, positive performance was recorded in the mining sector. Cumulative gold deliveries for 2014 increased by 9.76 percent from 12,663.41 kg in 2013 to 13,899.85 kg in 2014, surpassing the minimum annual requirement of 10 tonnes for the country’s re-accreditation into the London Bullion Marketers Association. Given the low international prices such an increase in gold deliveries might not translate into increased gold earnings for the country. In the agriculture sector, total tobacco exports earnings declined by 11.3 percent in comparison to the 2013 marketing season to USD736.3 million. As at 19 December 2014, farmers had delivered to the Grain Marketing Board (GMB) about 255,519 metric tonnes of maize worth about USD101.8 million, although only USD57.6 million had been paid out to farmers. The maize farmers’ ability to adequately prepare for the 2015 cropping season is likely to be compromised by financial constraints faced by GMB. This will also have adverse implications on agricultural output and the contribution of the agriculture sector to GDP. Despite measures adopted by Government intended to protect and promote improved performance, the manufacturing sector continues to underperform in 2014. This can be attributed in part to the underperformance of service delivery by public institutions and the binding liquidity constraints, which undermines the performance and cost competitiveness of the manufacturing sector.
In the financial sector, total bank deposits grew from USD3.81 billion in November 2013 to USD4.42 billion in November 2014. The share of long-term deposits also significantly improved from 16.2 percent in November 2013 to 20.4 percent in November 2014, which increases long term funding opportunities. However, real average weighted lending rates for commercial and merchant banks tightened over the period November 2013 to November 2014. Some of the banking institutions are facing challenges, especially high non-performing loans (above 20 percent) and under-capitalization. This is not surprising as the Banking Sector Fragility Index also shows that the Zimbabwean banking sector has had three protracted periods of distress since June 2011.

In the external sector, total imports for the 11 months in 2014 fell by about 18.8 percent to about USD5.8 billion compared to the same period in 2013 while total exports for the same period decreased by about 13.4 percent to about USD2.8 billion. The actual current account balance as at November 2014 was not yet publicly available to quantify the impact. However, the trend shows a deteriorating current account balance. Based on past trends foreign direct investment, other capital account items (including remittances) are not sufficient to close the overall balance of payments deficit. Information on the country’s reserve assets as well as their changes during the period was however not available to confirm this.

The poor performance of the key sectors of the economy adversely affected the overall fiscal performance of the country. The cumulative revenue outturn for November 2014 fell short of the USD3.360 billion realised over the same period in 2013 by 0.12 percent. Total government expenditure and net lending stood at USD423.2 million with current expenditure accounting for 88.2 percent of total expenditure and wage related costs accounting for 61.35 percent of the recurrent expenditure. The performance created a primary deficit of USD196.2 million, thus highlighting that the country continues to have a constrained fiscal space.

### Regional Economic Developments

A look at the stock markets in the region reveals that the Zimbabwe Stock Exchange was the best performer for the month of December 2014. Zimbabwe gained 12.05 percent on its all share index in the month, followed by the Malawi Stock Exchange (1.77 percent) and the Johannesburg Stock Exchange (0.36 percent), whilst the worst performers were the Mauritius Stock Exchange (-1.23 percent) and the Nairobi Stock Exchange (-0.85 percent).

An analysis of the annual performance of the regional stock market indices showed that Zimbabwe’s mining index was the best performer whilst its industrial index was the worst performer, having lost 19.41 percent (Table 1). The Zimbabwe Stock Exchange performed poorly among its peers throughout the year on the back of a slowdown in economic activities (see section 5.1), whilst the mining sector was buoyed by prospects of improving production and favourable commodity prices on the international market.

### Table 1: 2014 Regional Stock Markets Annual Performance

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
<th>Open</th>
<th>Close</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zimbabwe</td>
<td>Mining Index</td>
<td>45.79</td>
<td>71.71</td>
<td>56.61</td>
</tr>
<tr>
<td>Kenya</td>
<td>Nairobi All Share Index</td>
<td>136.56</td>
<td>162.89</td>
<td>19.28</td>
</tr>
<tr>
<td>Malawi</td>
<td>All Share Index</td>
<td>12,531.04</td>
<td>14,886.12</td>
<td>18.79</td>
</tr>
<tr>
<td>Zambia</td>
<td>Lusaka All Share Index</td>
<td>5,327.24</td>
<td>6,140.15</td>
<td>15.26</td>
</tr>
<tr>
<td>South Africa</td>
<td>Johannesburg All Share Index</td>
<td>46,589.70</td>
<td>49,770.60</td>
<td>6.83</td>
</tr>
<tr>
<td>Botswana</td>
<td>Domestic Companies Index</td>
<td>9,064.31</td>
<td>9,501.60</td>
<td>4.82</td>
</tr>
<tr>
<td>Botswana</td>
<td>Foreign Companies Index</td>
<td>1,583.45</td>
<td>1,577.61</td>
<td>-0.37</td>
</tr>
<tr>
<td>Mauritius</td>
<td>All Share Index</td>
<td>2,095.69</td>
<td>2,073.72</td>
<td>-1.05</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Industrial Index</td>
<td>201.99</td>
<td>162.79</td>
<td>-19.41</td>
</tr>
</tbody>
</table>

Source: Africa Financials

Inflation developments in the Southern African Development Community (SADC) region saw Zimbabwe recording the lowest inflation in the region in December 2014. Key drivers for Zimbabwe’s low inflation are discussed in section 5.3. Mozambique, Seychelles and Mauritius also had low inflation rates of 1.9 percent, 0.5 percent and 0.2 percent respectively.
On a year on year basis, gold and platinum prices declined by 1.82 and 10.26 percent, respectively to average USD1,201.08 and USD1,217.98 per ounce in December 2014. However, month on month gold and platinum prices improved by 2 and 0.8 percent respectively.

3. COMMODITIES PRICES

3.1 Precious Metals

On an annual basis, the gold price declined by 1.82 percent in December 2014, to average USD1,201.08 per ounce, whilst platinum price fell by 10.26 percent over the same period to average USD1,217.98 per ounce (Figure 1). However, on a month on month basis, the gold price strengthened by 2 percent from an average of USD1,177.43 in November 2014, whereas the platinum price improved slightly by 0.8 percent from USD1,208.80 per ounce over the same period. Support for the precious metal prices came from the depreciation of the USD against the Yen, Euro and Australian dollar in the month. Furthermore, preparations of the Chinese New Year celebrations in February 2014 and also relaxed import restrictions in India have contributed to improved demand for gold. The Federal Open Market Committee also helped sustain the precious metal prices from further declines as they did not provide much information on the Federal Reserve’s next decision concerning interest rates, thereby dampening market speculations around interest rate hikes.

![Table 2: Trend in SADC Region Inflation, July 2014-December 2014](source: Trading Economics/Zimbabwe Statistics Agency (ZIMSTAT))

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>22.3</td>
<td>24.5</td>
<td>23.7</td>
<td>23.3</td>
<td>23.7</td>
<td></td>
</tr>
<tr>
<td>Zambia</td>
<td>8.0</td>
<td>8.0</td>
<td>7.8</td>
<td>7.9</td>
<td>8.1</td>
<td>7.9</td>
</tr>
<tr>
<td>Angola</td>
<td>7.0</td>
<td>7.1</td>
<td>7.2</td>
<td>7.5</td>
<td>7.5</td>
<td>7.5</td>
</tr>
<tr>
<td>Tanzania</td>
<td>6.5</td>
<td>6.7</td>
<td>6.6</td>
<td>5.9</td>
<td>5.8</td>
<td>4.8</td>
</tr>
<tr>
<td>South Africa</td>
<td>6.3</td>
<td>6.4</td>
<td>5.9</td>
<td>5.9</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>Namibia</td>
<td>5.5</td>
<td>5.4</td>
<td>5.3</td>
<td>5.0</td>
<td>5.0</td>
<td>4.6</td>
</tr>
<tr>
<td>Botswana</td>
<td>4.5</td>
<td>4.6</td>
<td>4.5</td>
<td>4.3</td>
<td>4.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Mauritius</td>
<td>3.1</td>
<td>3.8</td>
<td>2.9</td>
<td>1.9</td>
<td>0.9</td>
<td>0.2</td>
</tr>
<tr>
<td>Mozambique</td>
<td>3.0</td>
<td>2.6</td>
<td>2.2</td>
<td>2.1</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Seychelles</td>
<td>1.5</td>
<td>0.8</td>
<td>0.6</td>
<td>0.8</td>
<td>0.2</td>
<td>0.5</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>0.31</td>
<td>0.15</td>
<td>0.09</td>
<td>(0.001)</td>
<td>(0.78)</td>
<td>(0.80)</td>
</tr>
</tbody>
</table>

Source: Trading Economics/Zimbabwe Statistics Agency (ZIMSTAT)

One of the interventions in Zimbabwe which could have a bearing on regional trade is the introduction of an Electronic Single Window Facility on the country’s ports of entry as announced in the 2015 National Budget Statement. The facility entails coordination and cooperation among all regulatory agencies involved in the movement of goods and persons at the ports of entry. This facility allows the regulatory agencies to lodge standardized information and documents with a single entry point to fulfill all import, export, and transit-related regulatory requirements. This means that individual data elements will be submitted only once.

Under this facility, expected to be in place during the second quarter of 2015, the Zimbabwe Revenue Authority (ZIMRA) will be charged with the collection of all fees and charges. In addition, ZIMRA will be responsible for the enforcement of prohibitions, restrictions, import and export controls, permits and license validations.

This facility comes at a time when the 2015 World Bank’s Ease of Doing Business highlighted that excessive document requirements, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for Zimbabwean exporters and importers. Zimbabwe was poorly ranked on the ease of trading across borders in 2014 as it stood at 180 in the ranking of 189 economies. The Electronic Single Window Facility is expected to facilitate the speedy clearance of cargo, movement of persons as well as enhancing revenue collection, whilst reducing the cost of doing business.
The Brent crude oil market continued on a bearish mode in December 2014, with the Brent Crude oil price declining sharply by 42.3 percent compared to the same period in 2013 to average USD63.78 per barrel. On a month on month basis, the Brent crude oil price declined by 20.3 percent from an average of USD80.04 per barrel in November, 2014 (Figure 2). The Brent crude oil prices continue to weaken due to excess supply on the market which refineries are unable to absorb as the Organization of Petroleum Exporting Countries (OPEC) continues to maintain its oil output quota unchanged at 30 million barrels. Moreover, the increases in United States oil production as well as global supplies of natural gas liquid have also been contributing to the global surplus and the weakening of crude oil price. The disruptions in Libyan oil supply were offset by increase in production from Russia and other countries.

3.2 Brent crude oil

The Brent crude oil market continued on a bearish mode in December 2014, with the Brent Crude oil price declining sharply by 42.3 percent compared to the same period in 2013 to average USD63.78 per barrel. On a month on month basis, the Brent crude oil price declined by 20.3 percent from an average of USD80.04 per barrel in November, 2014 (Figure 2). The Brent crude oil prices continue to weaken due to excess supply on the market which refineries are unable to absorb as the Organization of Petroleum Exporting Countries (OPEC) continues to maintain its oil output quota unchanged at 30 million barrels. Moreover, the increases in United States oil production as well as global supplies of natural gas liquid have also been contributing to the global surplus and the weakening of crude oil price. The disruptions in Libyan oil supply were offset by increase in production from Russia and other countries.

Figure 2: Brent Crude Oil Prices, December 2013 – December 2014 (monthly average)

Source: Bloomberg and Reuters

Domestic fuel prices in the country have been sticky in adjusting downwards despite the massive decline in international crude oil price. The government, through the Ministry of Energy and Power Development, intervened to ensure that domestic fuel prices go down by introducing retail price ceilings and advocating for frequent reviews of petroleum prices. The retail prices for petrol and diesel on the domestic market were initially set not to exceed USD1.32 per litre and USD1.20 per litre respectively,
The December 2014 wheat price strengthened owing to reduced supply from Russia, whilst the maize price remained subdued due to ample supplies from the US.

3.3 Wheat and Maize

Wheat prices managed to firm up in December 2014, recording a high of USD303 per tonne; a level last noted in May 2014. The improvement in wheat price was supported by concerns around reduced supplies from Russia, owing to the government decision to introduce grain export duties. Compared to the same month in 2013, where a high of USD317 and a low of USD290 per tonne were registered, the 2014 wheat price was slightly lower except on the 18th of December 2014 (Figure 3).

Figure 3: Comparison of Daily Maize, 3YC, Gulf and Wheat HRW, Gulf Export Prices for December 2013 and 2014

Source: International Grain Council

The maize price remained subdued in December 2014 compared to 2013 owing to abundant supplies on the market from the United States farmers. The highest price recorded was USD191 and the lowest was USD181, whereas in December 2013 the maize price reached a high of USD215 and a low of USD206 (Figure 3).

Although the government set the maize producer price at USD390 per tonne for the 2013/2014 season, the Grain Marketing Board (GMB) has been struggling to pay farmers who delivered maize to its depots. This may hamper production of maize for the 2014/2015 as farmers need the funds to procure inputs and fund farming operations. Instead of selling maize to the strategic reserve GMB, some farmers resorted to selling directly to buyers through local markets, where the price has been averaging USD300 per tonne.

4. REAL SECTOR DEVELOPMENTS

4.1 Agriculture

4.1.1 Tobacco production and trade

As at 19 December 2014, a total of 87,852 growers had registered to grow tobacco in the 2014/15 cropping season, compared to 87,728 who had registered the same time last year. Tobacco output in the current season is projected at 222 million kg, to be grown on a targeted overall hectarage of 90,000 hectares.

Total tobacco exports for the 2014 marketing season stood at USD736.3 million, registering a 11.3 percent decline in export earnings compared to the same period in 2013. China, Belgium and South Africa remained top 3 key export markets for Zimbabwean tobacco between 2013 and 2014. Seasonal import permits issued were worth USD 28.9 million compared to USD 51 million registered over the same period in 2013, with 82 percent of the value coming from Zambia. Tobacco is imported into Zimbabwe for blending purposes.
4.1.2. Grain procurement at stake

The Grain Marketing Board (GMB) is perennially trapped in delays in paying farmers after grain is delivered owing to financial challenges. Farmers had delivered to the GMB about 255,519 mt of maize valued at USD101.8 million as at 19 December 2014. However, only USD57.6 million had been disbursed to farmers. This has largely compromised the farmers’ capacity to prepare for the current cropping season in terms of land preparation and input procurement and their productivity in the forthcoming season could be affected. The government remains a key player in purchasing and storage of grain to ensure the country’s food security. The GMB has a mandate of maintaining up to 500,000mt of grain crops in strategic reserves. This provides a buffer during grain deficit periods. However, the institution has been failing to do so due to financial challenges as well as the low productivity levels for the country in the last few years. This calls for efficient management of stock through payment of farmers timely to build sufficient stock reserves.

4.2 Mining

On a year on year basis, total gold deliveries for December increased by 36.58 percent to 1475.49 kg in 2014 (Figure 4). Deliveries by primary producers for December decreased by 15.23 percent to 905.52 kg in 2014, whilst deliveries by small-scale producers increased by 93.56 percent to 569.98 kg in 2014. Cumulative gold deliveries for the whole year increased by 9 percent from 12,663.41 kg in 2013 to 13,899.85 kg in 2014, surpassing the minimum annual requirement of 10 tonnes for the country’s re-accreditation into the London Bullion Marketers Association. Although cumulative deliveries for 2014 surpassed the minimum annual requirement of 10 tons for Zimbabwe’s re-accreditation into the London Bullion Marketers Association, they are below the country’s own target of 14,500 kg for 2014. The target for 2015 is set at 16,000 kg, an increase of 10.34 percent from the target for 2014, which may be difficult to achieve based on the 2014 performance.

4.2.1 Other Mining Developments

The World Platinum Investment Council (WPIC)’s third quarter 2014 report shows that the fundamentals of the industry are tightening; with demand exceeding supply in the last three years to produce a 2014 global platinum shortfall of 885,000 ounces. Supply was significantly reduced by the unprecedented five month strike in South Africa in 2014. From a national perspective, South Africa produced 31 percent less platinum in 2014, which is equivalent to 2,99 million ounces compared to 4,36 million ounces in 2013. However, total global supply year-on-year was only 9 percent lower owing to higher output from North America, an increase in platinum from recycling, and the ability of South African miners to supply from their inventories during the strike.

4.3 Manufacturing

By December 2014, the situation in the manufacturing sector was still dire despite some policy interventions through protectionist fiscal policy tools introduced by the government. In the absence of monetary policy instruments to adjust interest rates or exchange rates and improve
the competitiveness of the sector, fiscal policy remains the main tool for government intervention in the sector. Access to lines of credit has remained a challenge that has undermined retooling and capital investment initiatives. Imposition of duty on imports has only had minimal effects in the economy due to the absence of complimentary policy reforms on the key economic enablers.

The 2015 National Budget identifies about 10 public sector enterprises as being prioritised for reform in 2015, including the key enablers such as National Railways of Zimbabwe, the Zimbabwe Power Company and the Zimbabwe National Water Authority.

The year also ended with renewed discussions about industrial parks and Special Economic Zones as part of government initiatives to promote growth of the manufacturing sector. Without significant reforms in infrastructure, especially power and transport, it would also be difficult to ensure competitiveness of the firms even though they operate within the special economic zones. This also underlines the extent to which efforts towards ensuring that key enablers are functioning well need to precede most of the interventions aimed at bailing out the manufacturing sector.

4.4 Tourism

The country’s tourism sector is expected to grow by 4.7 percent in 2015, compared to 3.9 percent in 2014. Growth in the sector is to be buttressed by promotion of both domestic and international tourism and also improved cooperation between government and private players. However, for growth in domestic tourism market to be realized, promotion of tourism products should be complemented by increased tourism awareness campaigns by the government and private players to help change the perceptions among the general public of tourism as a preserve for the elite.

In order to increase tourist arrivals, more aggressive marketing efforts in major international source markets such as the United Kingdom, Europe and United States are essential. However, given the government resource constraints, partnerships with private sector and engagement of foreign embassies in disseminating information on tourism products, is important. The recent tourism support extended by the Embassy of Netherlands which will see Zimbabwe tourism players showcasing at the Vakantiebuers Holiday Show from the 13-18 January 2015 in Netherlands provides a good example. Through the Show, the country will be able to advertise its tourism products to Belgium, Netherlands and Luxembourg (Benelux countries) to boost arrivals. However, since Benelux countries contribute only 9 percent of European arrivals, other schemes, including the uni-visa system between Zambia and Zimbabwe launched in November 2014, are still called for to complement the efforts.

5. FISCAL POLICY

5.1 Revenues outturn

Revenue outturn for the month of November 2014 amounted to USD318.94 million, falling short of the set target for the month by 13.64 percent. Tax revenue contributed most of government revenue with tax on income & profits (36.1 percent) and Value Added Tax (30.6 percent) accounting for the bulk of the tax revenue whilst Non-Tax revenue constituted only 4.2 percent of government revenue.

The Tourism sector is expected to grow by 4.7 percent in 2015, an improvement of 0.8 percent from 2014 growth rate underpinned by successful implementation of the tourism policy.

Government revenue outturn for the month of November 2014 amounted to USD 318.94 million against expenditure of USD 344.15 million with current expenditure accounting for 88.2 percent of the total expenditure. Wage related costs accounted for 61.35 percent of the recurrent expenditure.

Table 3: Performance and Contribution of Revenue heads

<table>
<thead>
<tr>
<th>Percentage contribution to total government revenue (net)</th>
<th>Variance actual revenue vs target (as percentage of target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax on income and profits</td>
<td>36.1</td>
</tr>
<tr>
<td>Value added tax (VAT)</td>
<td>30.6</td>
</tr>
<tr>
<td>Excise duties</td>
<td>15.3</td>
</tr>
<tr>
<td>Customs duties</td>
<td>11.5</td>
</tr>
<tr>
<td>Non-tax revenue</td>
<td>4.2</td>
</tr>
<tr>
<td>Other indirect taxes</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: MoFED
The decline in foreign investor participation on the local bourse in December 2014 compared to December 2013 may signal low confidence foreign investors have on the performance of the stock market which is underpinned by the slowdown in general economic activities.

The poor performance by the various tax heads resulted in a cumulative revenue of USD 3.356 billion for the eleven months to November 2014, falling short of the target for the period by 7.79 percent. Year on year comparison shows that the cumulative revenue outturn for November 2014 fell short of the USD3.360 billion realised over the same period in 2013 by 0.12 percent.

**Figure 5: Revenue and Expenditure Performance (USD Millions), January to November 2014**

![Figure 5: Revenue and Expenditure Performance](image)

Source: MoFED

5.2 Expenditure Outturn

For the month of November, total government expenditure and net lending stood at USD423.2 million (Figure 5); current expenditure accounted for 88.2 percent of total expenditure, with the remainder being capital expenditure. On the other hand, wage related costs accounted for 61.35 percent of the recurrent expenditure.

Cumulative government expenditure for the eleven months to November 2014 amounted to USD3.55 billion against actual cumulative revenue of USD3.36 billion, resulting in a primary deficit of USD196.20 million. The government therefore has to improve its expenditure mix, which has largely been consumptive through implementing measures that are aimed at rationalising the wage bill and shifting spending towards capital expenditure.

6. FINANCIAL AND MONETARY SECTOR

6.1 Stock Market

The industrial index, which opened the year (2014) trading at 201.99, closed the year at 162.79, losing 39.2 points (19.41 percent). The Mining Index gained 25.92 points (56.61 percent) to close at 71.71 during the year. A month on month analysis of the stock market performance for December 2014 showed that the Industrial Index lost 8.66 points from 171.45 in November 2014, whilst the Mining Index gained 7.32 points from 64.39 in November 2014 (Figure 5). The top gainers for December were First Mutual Holdings Limited (25 percent), Dawn Properties Limited (23.53 percent), Bindura Nickel Corporation Limited (23.08 percent), Mashonaland Holdings Limited (22.73 percent) and National Foods Holdings Limited (13.33 percent), whilst the top losers were, Truworths Limited (-75 percent), Hwange Colliery Company Limited (-39.92 percent), General Beltings Holdings Limited (-33.33 percent), ART Corporation Limited (-25 percent) and Zimre Property Investments Limited (-22.22 percent).

A monthly comparison of stock market activities showed that whilst turnover value declined by 14.57 percent, turnover volume increased by 204.79 percent between November 2014 and December 2014. The top five traded firms on the local bourse in December 2014 accounted for 79.66 percent of the value of trade executed at the ZSE. Thus, the concentration of trades in the few counters is a characteristic of an illiquid market and also highlights investor’s preferences for counters that are more liquid. The share of foreign investors in total turnover declined to 46.29 percent in December 2014 from 62.13 percent in November 2014, whilst market capitalisation further declined by 4.22 percent from USD 4.52 billion to USD 4.33 billion during the same period.
Real average weighted lending rates for corporates and individuals increased over the period November 2013 to November 2014.

An annual comparison of stock market activities showed that the stock market performed poorly in December 2014 compared to December 2013 (Table 4). Total turnover value which stood at USD49.2 million in December 2013 declined by 39.64 percent to USD 29.7 million in December 2014, whilst turnover volume increased by 65.12 percent from their levels in 2013. Thus, investors bought shares at discounted values in December 2014 compared to December 2013 as stock market activities declined due to a slowdown in the general economic activities.

There was a decline in foreign investor participation on the local bourse as both the turnover value and volume of shares bought and sold by foreigners declined in December 2014 compared to December 2013, signalling low confidence on the market (Table 4). The value and volume of shares bought by foreigners declined by 60.51 percent and 68.35 percent respectively, whilst the value and volume of shares sold also declined by 58.73 percent and 24.65 percent respectively. Market capitalisation, which stood at USD5.2 billion at the end of December 2013, declined by 16.84 percent to USD 4.3 billion in December 2014.

### Table 4: Summary Statistics for the Zimbabwe Stock Exchange for December 2013 and 2014

<table>
<thead>
<tr>
<th></th>
<th>Dec-13</th>
<th>Dec-14</th>
<th>Percentage Change</th>
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<tbody>
<tr>
<td>Turnover value (USD)</td>
<td>49,204,843.94</td>
<td>29,701,204.84</td>
<td>(39.64)</td>
</tr>
<tr>
<td>Turnover volume</td>
<td>287,677,683</td>
<td>475,024,051</td>
<td>65.12</td>
</tr>
<tr>
<td>Value of shares bought by foreigners (USD)</td>
<td>34,818,400.43</td>
<td>13,748,512.13</td>
<td>(60.51)</td>
</tr>
<tr>
<td>Value of shares sold by foreigners (USD)</td>
<td>31,508,764.27</td>
<td>13,002,313.13</td>
<td>(58.73)</td>
</tr>
<tr>
<td>Volume of shares bought by foreigners</td>
<td>162,011,371</td>
<td>51,268,817</td>
<td>(68.35)</td>
</tr>
<tr>
<td>Volume of shares sold by foreigners</td>
<td>134,369,161</td>
<td>101,249,805</td>
<td>(24.65)</td>
</tr>
<tr>
<td>Market capitalisation (USD)</td>
<td>5,203,129,775</td>
<td>4,327,059,384</td>
<td>(16.84)</td>
</tr>
</tbody>
</table>

Source: Zimbabwe Stock Exchange

### 6.2 Interest Rates

The real average weighted lending rates for commercial and merchant banks tightened over the period November 2013 to November 2014, largely reflecting, among other factors, tight liquidity conditions, high credit risk, perceived high country risk, and information asymmetry due to lack of credit reference bureaus. Commercial real averaged weighted lending rates for individuals and corporates increased from 13.64 percent and 8.86 percent respectively in November 2013 to 15.04 percent and 10.75 percent respectively in November 2014 (Figure 7). Similarly, merchant bank real weighted average lending rates for individuals and corporates increased over the same period from 18.30 percent and 17.18 percent to 19.78 percent and 18.78 percent, respectively. The 2014 Confederation of Zimbabwe Industries Manufacturing Survey indicates that 76 percent of manufacturers in Zimbabwe are negatively affected by high interest rates.
Money supply (M3) grows by 16.0 percent to USD4.42 billion for the period November 2013 to November 2014.

6.3 Monetary Developments

Annual growth in broad money supply (M3) increased from -0.5 percent in November 2013 to 16.0 percent in November 2014, reflecting the growth of total bank deposits from USD3.81 billion to USD4.42 billion over the period (Figure 8).

Demand deposits increased by 11.3 percent, while savings & short-term deposits and long-term deposits increased by 8.4 percent and 45.8 percent, respectively (Table 5). The share of long-term deposits in total bank deposits significantly improved from 16.2 percent in November 2013 to 20.4 percent in November 2014. However, long-term lending may still be curtailed by high non-performing loans and a difficult macroeconomic environment.

Table 5: Composition of Total Banking Sector Deposits (USD billion)

<table>
<thead>
<tr>
<th>Type of deposit</th>
<th>November 2013</th>
<th>November 2014</th>
<th>Annual increase (absolute) USD billion</th>
<th>Annual increase (percent)</th>
<th>Share in total deposits as at end November 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Deposits</td>
<td>1.94</td>
<td>2.16</td>
<td>0.22</td>
<td>11.3</td>
<td>49.02</td>
</tr>
<tr>
<td>Saving &amp; Short-Term Deposits</td>
<td>1.25</td>
<td>1.35</td>
<td>0.11</td>
<td>8.4</td>
<td>30.62</td>
</tr>
<tr>
<td>Long-Term Deposits</td>
<td>0.62</td>
<td>0.90</td>
<td>0.28</td>
<td>45.8</td>
<td>20.36</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>3.81</td>
<td>4.42</td>
<td>0.61</td>
<td>16.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: RBZ Monthly Economic Review

1 M3 is defined as total banking sector deposits, net of interbank deposits. It excludes notes and coins in circulation as it is difficult to account for them in the multicurrency system.
Loans & advances to the private sector declined from USD3.13 billion in November 2013 to USD2.98 billion in November 2014.

Notwithstanding a 16.0 percent increase in total bank deposits, total domestic credit growth decelerated from 13.0 percent in November 2013 to 6.4 percent in November 2014. Private sector credit growth also declined from 6.0 percent to 3.4 percent over the same period, largely reflecting a decline of 4.8 percent in private sector loans & advances from USD3.13 billion to USD2.98 billion.

Sectors for which loans & advances declined are conglomerates (-79.6 percent), transport (-44.0 percent), services (-20.4 percent), distribution (-16.20 percent), manufacturing (-7.18 percent) and mining (-4.5 percent). High non-performing loans and a subdued economic outlook have reduced the lending appetite for banks resulting in the decline of loans & advances.

BOX 1: Banking Sector Fragility Index

The banking sector fragility index (BSFI) is a measure of the banking system’s vulnerability to crisis. It is used to empirically measure, monitor and pinpoint episodes of distress in the banking system. Its calculation is based on weighted real annual changes in bank deposits, credit to the private sector and bank foreign liabilities as indicators of banking crisis. Changes in bank deposits act as a proxy to the risk of bank runs; changes in private sector credit act as proxy to credit risk and changes in bank foreign liabilities proxy foreign exchange risk. Specifically, the index is constructed as follows:

\[
BSFI = \left( \frac{Dep_t - \mu_{Dep}}{\sigma_{Dep}} + \frac{Cred_t - \mu_{Cred}}{\sigma_{Cred}} + \frac{FL_t - \mu_{FL}}{\sigma_{FL}} \right) / 3
\]

Where \(Dep_t, Cred_t, FL_t\) are annual changes at time \(t\) of banking deposits, credit to private sector and bank foreign liabilities, respectively. \(\sigma_{Dep}, \sigma_{Cred}\) and \(\sigma_{FL}\) are the respective standard deviations for the sample period.

The decrease in the BSF index can be interpreted as tendency towards increasing fragility of the banking sector to crisis. The intuition behind this is that a banking crisis is usually a result of substantial falls in bank deposits (withdrawals), claims to the private sector (in response to significant non-performing loans) and / or foreign liabilities. However, every fall of the BSF index does not necessarily mean that the banking system is moving into a deep systemic crisis and therefore the BSFI differentiates between high and medium fragility episodes.

The banking system is said to be in medium fragility when \(0 > BSFI > -\sigma_{BSFI}\) (\(\sigma_{BSFI}\) is the standard deviation of the BSFI over the sample period) and in high fragility when \(BSFI < -\sigma_{BSFI}\). When BSFI = 0, having previously been negative, then the banking system is said to have recovered. When BSFI > 1, there is no fragility in the banking system.

Using the Banking Sector Fragility (BSF) Index, it can be shown that the Zimbabwean banking sector has had three protracted periods of distress since June 2011 (Figure 9).² The BSFI can be complemented and validated by the occurrence of events like bank runs, closures, mergers, recapitalization and huge non-performing assets.

Figure 9: Banking Sector Fragility Index, June 2011 to November 2014

² For the calculation of BSF index see Kibritcioglu (2002), and Singh (2010) for the benchmarking of the index.
The decline in inflation was underpinned by weak aggregate demand and the weakening of the South African rand against the US dollar.

### 6.4 Inflation

The year on year inflation rate for the month of December 2014 stood at about -0.796 percent, shedding about 0.012 percentage points from the November 2014 rate of -0.784 percent. The decline in annual inflation was weighed down by non-food inflation, which stood at 0.13 percent for the month of December 2014, shedding 0.04 percentage points from the November 2014 rate of 0.17 percent. Food and non-alcoholic beverages inflation for the month of December 2014 stood at -2.70 percent, also shedding 0.05 percentage points from the November 2014 rate of -2.75 percent (Figure 10).

![Figure 10: Trend in Year on Year Inflation, December 2013 – December 2014](Source: ZIMSTAT)

Figure 10: Trend in Year on Year Inflation, December 2013 – December 2014

![Figure 11: Trend in Month on Month Inflation, December 2013 - December 2014](Source: ZIMSTAT)
The month on month inflation rate in December 2014 was -0.09 percent gaining 0.60 percentage points from the November 2014 rate of -0.69 percent. Month on month inflation was spurred by non-food inflation, which stood at 0.04 percent in December 2014, gaining 0.92 percentage points on the November 2014 rate of -0.96 percent and weighed down mainly by food and non-alcoholic beverages inflation which stood at -0.36 percent in December 2014, after shedding 0.25 percentage points from -0.11 percent in November 2014 (Figure 11).

The decline in annual inflation was underpinned by weak aggregate demand from low disposable income worsened by high levels of unemployment. The weakening of the South African rand against the US dollar, at a time when the country is dependent on imports, particularly from its major trade partner, South Africa, also dampens inflation. If Zimbabwe continues to be dependent on imports, the overall inflation management framework will remain exogenous in the absence of a strong monetary policy.

7. EXTERNAL SECTOR

The first 11 months of 2014 did not see a change in the trend that had been observed over the course of the year where exports underperformed compared to the same period in 2013 while imports also dropped compared to similar periods in 2013. At about USD5.8 billion, total imports for the 11 months in 2014 fell by about 18.8 percent compared to the same period in 2013. Total exports for the same period were about USD2.8 billion, having decreased by about 13.4 percent compared to the same period in 2013. This evidently imposed negative pressures on the current account balance. The actual current account balance as at November 2014 was not yet publicly available to quantify the impact. However, the trend shows a deteriorating current account balance. Based on past trends foreign direct investment, other capital account items (including remittances) will not be sufficient to close the overall balance of payments deficit. Information on the country’s reserve assets as well as their changes during the period was however not yet available to confirm this.

Imports were more volatile in 2013 than in 2014 (Figure 12), which could reflect several shocks in 2013 which ushered a higher level of unpredictability in the patterns than in 2014.

Figure 12: Export and imports statistics, January-October 2013 and 2014

Source: ZIMSTAT

Given that exports are mostly unprocessed primary agricultural and mineral products; a look at Zimbabwe’s top five export destinations would appear to give surprising results (Figure 13). This can partly be explained by general data capturing problems for exports and imports. While South Africa absorbs a key proportion of tobacco and other raw materials for it to be the leading partner, the statistics show that Mozambique is the second largest export destination for Zimbabwe. The industries in Mozambique are not likely to have the capacity to absorb raw mineral or agriculture products in such volumes. Some products produced through toll manufacturing arrangements between Zimbabwe and Mozambique partners could have been recorded as exports (e.g nickel mattes).
8. Kariba Dam Rehabilitation

The Board of Directors of the African Development Bank Group on December 15, 2014, approved a proposed ADF loan of USD39 million to the Republic of Zambia, and a USD36 million grant to the Republic of Zimbabwe for the Kariba Dam Rehabilitation Project. The overall project cost is estimated at USD294.2 million and the African Development Bank’s financing of USD75 million will be complemented by contributions from the World Bank (USD75 million), the European Union (USD100 million), Sweden (USD25 million) and the Governments of Zimbabwe and Zambia (USD19.2 million). The project will be executed by the Zambezi River Authority on behalf of the two Governments and its implementation is expected to start early in 2015 and it will take about ten years to complete.

The project involves the rehabilitation of the Kariba Dam infrastructure by reshaping the plunge pool and rehabilitating the spillway. The plunge pool will be reshaped in order to dissipate energy from the spilled water thereby reducing the energy on impact and hence bedrock erosion which could undermine the dam foundations, leading to dam failure. The project will rehabilitate the spillway gates to avoid possible jamming in the open or closed positions both of which would result in dam failure and catastrophic regional loss of lives, livelihoods, and billions worth of assets and power, making the project a regional public good.

The value-added of the Bank Group in this project is being part of the donor group to ensure adequate financing of the project, as well as helping in the design of additional technical and social investigations to assure the technical, social integrity and economic soundness of the rehabilitation approach. Specifically, the Bank Group has been able to leverage internal resources under the Transition Support Facility to fund the Zimbabwe’s contribution to the project costs. The Bank is also contributing to the creation of work synergy between the Southern African Power Pool and the Zambezi River Authority (ZRA) to enhance regional integration.

The project will include a capacity-building component which includes training for technical staff of the ZRA and skills transfer through the supervision engineer and panel of experts. The programme will strengthen ZRA’s Emergency Preparedness Plan and also includes a programme for improved community emergency preparedness.