1. OVERVIEW

Zimbabwe continues to experience growth in gold production driven by small scale miners despite a fall in gold prices on the international market. Cumulative gold deliveries for January to November 2014 increased by 6.36 percent to 12.32 tonnes compared to the same period in 2013. On a year by year basis, total gold deliveries increased by 17.15 percent to 1205.37 kg in November 2014, with deliveries by primary producers declining by 5.26 percent to 784.54 kg in November 2014, whilst deliveries by small-scale producers increased by 109.63 percent to 420.83 kg in November 2014. Cumulative total mining earnings (excluding diamonds) for the nine months to September 2014 amounted to USD 1.41 billion, showing a 5.59 percent decrease compared to the same period in 2013. This decrease can be attributed to the poor performance of commodity prices on the international market. Gold was the major contributor to total revenue, accounting for 31.77 percent whilst platinum contributed 27.50 percent of the total mining earnings. The Zimbabwe Mining Revenue Transparency Initiative (ZMRTI), launched in September 2011 will be resuscitated in order to enhance transparency and accountability in the sector to curb revenue leakages in the mining sector.

In the international market, gold and platinum prices continued to decline on an annual basis, registering 7.77 percent and 14.95 percent decline respectively to average USD1,177.43 and USD1,208.80, underpinned by a strong US dollar. To cushion itself from declining international platinum prices, Zimbabwe has come up with some measures towards the setting up of a platinum refinery unit for mineral beneficiation by December 2016. This is expected to boost high value exports from Zimbabwe whose exports have predominantly been primary commodities. The country is also expected to benefit from re-accreditation into the London Bullion Marketers Association after surpassing the minimum gold annual production requirement of 10 tonnes.

Brent crude oil price tumbled by 25.74 percent on a year on year basis, to average USD80.04 per barrel in November 2014, driven by excess supplies which outweighed demand for crude oil. The recent growth in supply from non-Organization of Petroleum Exporting Countries (OPEC) contributed to the dampening of crude oil price. Furthermore, US crude production reached 9 million barrels per day at the beginning of November, its highest level since the early 1970s. In the domestic market, oil prices have started responding to the declining international oil prices though at very minimal levels. Some retailers reduced fuel-pump prices for diesel and petrol by 2 cents to sell at USD1.42 and USD1.52 per litre respectively towards the end of November.

The wheat price slightly firmed up in November, recording a high of USD290 per tonne underpinned by weather disruptions in major producing countries, whilst the moderate strengthening of the maize price in November to reach a high of USD201 per tonne was driven by tight availabilities in the US. The winter wheat harvest in Zimbabwe ended in October and farmers have been lobbying...
government to set aside the wheat import quota so as to ensure that home-grown wheat is mopped up. The country needs about 400,000 tonnes to meet national requirements, and producers have been producing about 10 percent with the difference being met through imports. Despite a high local maize producer price of USD390 per tonne, Zimbabwe’s maize productivity is quite low at 0.85 tonnes per hectare in 2014, which is far below other Southern African Development Community (SADC) countries like Malawi and South Africa whose maize yields average between 2-3.5 tonnes per hectare and 5-7 tonnes per hectare, respectively.

Tobacco output for the forthcoming 2014/15 cropping season is expected to increase to 222 million kg, a 3 percent increase from the 216 million kgs realised in the last season owing to increased hectarage from the 107 400 ha planted in 2013/14 season to 110 000ha. However, the tobacco farmers will be liable to an AIDS levy on tobacco growers at a rate of USD0.015 for each dollar of the selling price. The government introduced new import duties designed to protect the manufacturing sector in the 2015 National Budget Statement. Among other industries, the measures targeted the baking industry’s importation of products such as dough, rolls, buns, plain bread and cakes which were deemed non-productive. However, the baking industry is unlikely to improve its performance without addressing the high cost of doing business, liquidity and input supply constraints generally affecting industries in Zimbabwe.

In the tourism industry, rebate of duty on capital goods imported by tourism operators and suspension of duty on motor vehicles imported by Safari Tour operators were extended to December 2016. The facility has been very instrumental in assisting tour operators replace ageing vehicles and upgrade their services to match international standards. However, the rebate extension and suspension of duty need to be complemented by availing of loans by financial institutions to help operators acquire the needed assets.

The stock market is also not performing well as shown by the decline in stock market activities due to slowdown in the general economic activities. An annual comparison of stock market activities shows that both turnover value and volume declined by 0.59 percent and 17.52 percent respectively from USD34.97 million and 188.97 million shares in November 2013. The decline in stock market activities in the month of October 2014 is attributed to the slowdown in the general economic activities. Five counters have dominated trading accounting for a combined 68.87 percent of the value of trades executed at the ZSE. This can be viewed as an indicator of an illiquid market where investors prefer to trade in counters that are more liquid. A regional comparison shows that the Zimbabwe Stock Exchange performed poorly among its peers with Malawian All Share Index as the best performer gaining 3.54 percent buoyed by a depreciating Malawian Kwacha and rising inflation.

In the financial sector, commercial real averaged weighted lending rates for individuals and corporates increased from 13.36 percent and 8.66 percent in September 2013 to 14.36 percent and 9.48 percent in September 2014, respectively. The increase was partly due to tight liquidity in the economy, high non-performing loans, unfavourable business environment and perceived high country risk.

Total deposits increased by 12.8 percent to USD4.46 billion in October 2014. All the deposits classes increased, with long-term deposits recording the largest increase of 41.3 percent to constitute a share of 19.4 percent of total deposits as at end of October 2014. The increase in the stock and share of long-term deposits implies improving depositors’ confidence in the banking system. Alternatively, it could also reflect lack of alternative investments and preference by economic agents to hold on to deposits as a safe and liquid asset under conditions of heightened uncertainty about the economy. The move by RBZ to introduce bond coins worth USD10 million over the period 18 December 2014 to March 2015 will slightly increase the stock of money in the economy while alleviating the “small change problem”. The increased supply of coins is likely to induce the rationalization of prices of some consumer products that were overpriced due to lack of small change leading to lower inflation. Private sector credit growth decelerated from 10.3 percent in October 2013 to 1.8 percent in October 2014 as banking institutions adopt conservative lending approaches in the face of very high non-performing loans at 21 percent. The increase in credit to Government and Parastatals by 57.0 percent and 21.8 percent, respectively, could raise concerns of government borrowing can crowding out private investment borrowing and stifle economic growth especially where government borrowings are targeted towards recurrent expenditure as opposed to capital expenditure.
The total banking sector loan book is moderately spread across all the sectors as shown by the value of the Hirschman Herfindahl Index (0.144), hence spreading the risk on different sectors of the economy. The financial sector remains fragile with six banking institutions (excluding Post Office Savings Bank) non-compliant with minimum capital requirements. These are Afrasia, Agribank, Allied Bank, Methbank, Tetrad Investment, and ZB Building Society. Treasury through the National budget made provision of USD110 million for recapitalization of the RBZ. The targeted amount required for RBZ to effectively perform its lender of last resort is between USD150 – USD200 million. The presence of undercapitalized banks in the economy makes the banking sector fragile and reduces confidence in the sector.

Zimbabwe continues to record the lowest rate of inflation (-0.78 percent) in the Southern African Development Community (SADC) region, with Malawi topping the group at 23.7 percent. The expenditure mix is still skewed towards recurrent expenditures which accounted for 91.6 percent of total government expenditure, of which 58.05 is wage related costs. The government is still faced with the twin challenge of rebalancing its fiscal stance whilst at the same time improving its expenditure mix. This is exacerbated by a huge and unsustainable external debt stock which is projected to amount to USD7,225 billion (52 percent of gross domestic product (GDP)) by December 2014. Accumulated arrears accounts for 81 percent of the total external debt stock as the country has been failing to service its loans. As part of its strategy to engage international creditors over the country’s external indebtedness, the Government of Zimbabwe with the assistance of the African Development Bank will host a High Level International Debt Resolution Forum in early 2015.

Generally, economic performance during the period under review has been weak despite a very low inflation rate. Exports remained stagnant compared to 2013 levels; the stock market performance has been weak while economic growth has also been lower than originally anticipated. The policies that the government has also put in place as corrective measures such as import duty on selected products might need complimentary measures to produce the long term growth effects. The Zimbabwean government has shown commitment in setting up of a Sovereign Wealth Fund. USD500 thousand was allocated for the initial operations of the Sovereign Wealth Fund with a further funding of 25 per cent of royalties from export sale of minerals. The Government intends to set up dedicated windows for long-term Human and physical Infrastructure fund, Fiscal stabilization fund and a Minerals development fund. Zimbabwe can draw lessons from a number of countries within and outside Africa that have set-up mineral based Sovereign wealth as it proceeds with this initiative.

2. REGIONAL ECONOMIC DEVELOPMENTS

2.1 The impasse in Zimbabwe - European Union (EU) Relations Thawing

At the end of October 2014, the European Union lifted its 12 year suspension of direct financial aid to the Government of Zimbabwe that it had imposed in 2002. Article 96 of the Cotonou Agreement between African, Caribbean and Pacific states and the EU, stipulates imposition of “appropriate measures” if one party fails to fulfill obligations stemming from respect of human rights, democratic principles and rule of law. It is in this regard that the EU had suspended its direct funding to Zimbabwe. The decision to lift the measures was, however, based on the country’s improved political environment and economic conditions.

This move is expected to normalize the relations between the two cooperating partners. Beginning 2015, Zimbabwe will receive a five year support of Euro 234 million towards health, agriculture and governance initiative. Furthermore, the Zimbabwean private sector will now be able to access lines of credit directly from the European Investment Bank. The private sector had for a long time suffered from lack of investment capital to replace the obsolete equipment they are operating with. Access to such funds is expected to increase capacity utilization, create new capacities and help improve export competitiveness of the country. This development is expected to enhance local industry’s capacity exploit the 100 percent market access offer by the EU as well as brace for the imminent competition when the country gradually opens up 80 percent of its market to the EU under the Economic Partnership Agreement.
In November 2014, Gold and platinum prices declined on an annual basis by 7.77 percent and 14.95 percent respectively to average USD1,177.43 and USD1,208.80, underpinned by a strong USD.

Brent crude oil price tumbled by 25.74 percent year on year to average USD80.04 per barrel in November 2014, driven by excess supplies outweighing demand for crude oil. The domestic oil prices have started responding to the declining international oil prices. Towards the end of November, the local fuel-pump prices for diesel and petrol declined by 2 cents to sell at USD1.42 and USD1.52 per litre respectively at some outlet.

3. COMMODITIES PRICES

3.1 Precious Metals

The softening of precious metals prices persisted into November, 2014 as the US dollar continued to strengthen against major trading currencies like the Yen. The appreciation of the US dollar was supported by efforts to boost economic growth in Japan through the expansion of Bank of Japan Quantitative Easing Program and in China through a reduction in interest rates. The sustained stronger US currency, low unemployment and inflation continue to raise market expectations of a possible interest rate hikes by the US Federal Reserve. This will exert pressure on non-interest bearing investment like gold and platinum. Consequently the gold price declined by 7.77 percent on an annual basis in November 2014, to average USD1,177.43 per ounce, whilst the platinum price fell by 14.95 percent over the same period to average USD1,208.80 per ounce (Figure1).

Month on month average gold price contracted by 3.7 percent from USD1,222.97 in October 2014, whilst the platinum price weakened by 4.2 percent from USD1,261.33 per ounce over the same period.

Figure 1: Monthly Average Prices of Gold and Platinum, November 2013 – November 2014

Source: Bloomberg and Reuters

The initiatives by the Zimbabwe government to set up a platinum refinery unit for mineral beneficiation would cushion the country from the adverse effects of mineral price volatility. In spite of the low international gold prices, gold producers in Zimbabwe managed to deliver a total of 11.1 tonnes of gold to Fidelity Printers and Refiners by October 2014. This gold output has surpassed the minimum annual requirement of 10 tonnes for the country’s re-accreditation into the London Bullion Marketers Association. This was achieved through a combination of producer incentives and the plugging of gold leakages through the registration and licensing of custom millers and gold buying centres across the country.

3.2 Brent crude oil

The Brent crude oil market remained bearish in November, with the Brent Crude oil price declining sharply by 25.74 percent to average USD80.04 per barrel. On a month on month basis, the Brent crude oil price declined by 9.27 percent from an average of USD88.22 per barrel in October, 2014 (Figure 2). The recent growth in supply from non-Organization Petroleum Exporting Countries like the US has contributed to the dampening of crude oil prices. US crude production reached 9 million barrels per day at the beginning of November; its highest since the early 1970s. Exacerbating the situation is the Organization of Petroleum Exporting Countries decision to leave daily collective oil output quota unchanged at 30 million barrels. Furthermore, a steady increase in global supplies of natural gas liquid is also adding to the global surplus hence putting pressure on the oil price.
Wheat price firmed up in November underpinned by weather disruptions in major producing countries, whilst the moderate strengthening of the maize price was driven by tight availabilities in the US.

The domestic oil prices have started responding to the declining international oil prices. Towards the end of November, the local fuel-pump prices for diesel and petrol declined by 2 cents to sell at USD1.42 and USD1.52 per litre respectively at some outlets.

### 3.3 Wheat and Maize

The wheat price slightly firmed up in November compared to October 2014, recording a high of USD290 and a low of USD272 per tonne (Figure 3). The firmer wheat price was supported by cold weather in the US, which raised concerns of possible damage to the recently planted 2015/2016 wheat crop. The harsh winter weather which is not ideal for the planting of next crops in the Black Sea region also helped strengthen the wheat price. Despite the November 2014 price improvement, wheat price still remains low when compared to the same month in 2013 when a high price of USD326 and a low of USD312 per tonne was recorded.

The winter wheat harvest in Zimbabwe ended in October and farmers have been lobbying government to set aside the wheat import quota so as to ensure that home-grown wheat is mopped up. The country needs about 400,000 tonnes to meet national requirements, and producers have been producing about 10 percent with the difference being met through imports.

There was a modest rise in the international maize price in the month when compared to October reaching a high of USD201 on the 13th of November before declining to close the month at USD189 per tonne (Figure 3). The support for maize price arose from tight availabilities in the US owing to late harvesting and logistical delays. The maize price however remains low compared to November 2013 when a high of USD217 and low of USD209 per tonne were recorded.

The government of Zimbabwe procured 265 000 tonnes for the strategic grain reserves as at 20 November from the domestic market and a total intake of 300 000 tonnes is expected at the end of the current marketing season. Despite a high producer price of
USD390, Zimbabwe’s maize productivity is quite low at 0.85 tonnes per hectare in 2014, which is far below other SADC countries like Malawi whose maize yields average between 2-3.5 tonnes per hectare and South Africa whose maize yield is 5-7 tonnes per hectare.

4. SECTOR DEVELOPMENTS

4.1 Agriculture

4.1.1 Tobacco

Tobacco output for the forthcoming 2014/15 cropping season is expected to increase to 222 million kgs, a 3 percent increase from the 216 million kgs realised in the last season. This will be on the back of increased hectarage from the 107 400 ha planted in 2013/14 season to 110 000ha. Farmers who have registered to grow tobacco are increasing each season as tobacco production is receiving a lot of the much needed input support to farmers in addition to viable market prices. For example, the number of farmers who registered to grow tobacco in the coming season as at 21 November 2014 stood at 87,169 as compared to the 84,070 who had done so over the same period last year.

Beginning 1 January 2015, the tobacco farmers will however be liable to an acquired immune deficiency syndrome (AIDS) levy on tobacco growers at a rate of USD0.015 for each dollar of the selling price.

4.1.2 Preparations for the 2014/15 Farming Season

The Presidential Inputs Scheme valued at USD252.3 million was unveiled through the Mid-Year Fiscal Policy Review Statement. This is expected to benefit about 1.6 million households for the 2014/2015 summer cropping season, targeting maize, small grains, cotton and livestock. In its 2015 National Budget Statement, the government indicated that mobilisation of these resources was underway. A total of USD10 million had been raised through Budget support, triggering procurement and distribution of inputs through Grain Marketing Board depots countrywide. These funds facilitated procurement of 774.8 tons of maize seed, 299 tons of sorghum seed and 8 138 tons of basal fertilizer. Furthermore, Government had supported input suppliers through a combination of cash payments and issuance of treasury bills in settlement of previous obligations amounting to USD30.9 million. This boosted input producers’ capacity to ensure adequate input availability for the current season. Distribution of inputs has already started, allowing for farmers to access the inputs timely.

Additional resources for the Presidential Input Scheme would be mobilised through various arrangements, and would be in tranches. While input support to farmers is a positive move towards attainment of food security in Zimbabwe, it would however, be more effective if resources to do so are mobilised well before the start of the season. This would ensure all the targeted farmers get the inputs on time as the agricultural season commences. Planting on time and timeous application of fertilisers will enhance crop yields.

An analysis of the statistics provided in table 1 reveals a marginal input deficit at national level which is expected to be met by the local production as well as imports. The country is importing large volumes of fertilisers (see section 5.4) while it has installed capacity can meet the local demand. Initiatives targeted at reviving the local fertiliser industry would reduce the fertiliser import bill that is further widening the balance of payments deficit. Local procurement of fertiliser by financiers of contract farming; improving the availability and cost of electricity among other issues can boost the capacity of local fertilizer producers.

4.1.3 Livestock Production

Increased production in 2015 is generally expected in the livestock sectors such as beef, poultry, dairy, pork, sheep and goats as well as ostriches. Poultry and beef production markedly increased by 51 percent and 34 percent between 2013 and 2014, respectively (Figure 4). However, in 2015 beef production is expected to marginally increase from 75,500 tonnes to 76,600 tonnes backed by increased grazing pastures and raw material stock in the prospective 2015 agricultural season. On the other hand poultry production is projected to slightly increase by 0.2 percent to 89 100 tonnes on the back of expected increase in maize production and continued poultry import restriction. New and innovative methods of pork production and provision of extension services are some of the measures that can be implemented to boost pork production in Zimbabwe.
Cumulative total mining earnings (excluding diamonds) for the nine months to September 2014 amounted to USD 1.41 billion, showing a 5.59 percent decrease compared to the same period in 2013. Gold was the major contributor to total revenue, accounting for 31.77 percent whilst platinum contributed 27.50 percent of the total mining earnings.

4.2 Mining

4.2.1 Major Minerals Earnings

Cumulative total mining earnings (excluding diamonds) for the nine months to September 2014 amounted to USD 1.41 billion, showing a 5.59 percent decrease compared to the same period in 2013. This decrease can be attributed to the poor performance of commodity prices on the international market. Gold was the major contributor to total revenue, accounting for 31.77 percent whilst platinum contributed 27.50 percent of the total mining earnings.

4.2.2 Gold Deliveries

Cumulative gold deliveries increased by 6.36 percent to 12.32 tonnes from January to November 2014, compared to the same period in 2013. On a year on year basis, total gold deliveries increased by 17.15 percent to 1205.37 kg in November 2014 (Figure 5). Deliveries by primary producers decreased by 5.26 percent to 784.54 kg in November 2014, whilst deliveries by small-scale producers increased by 109.63 percent to 420.83 kg in November 2014.

On a month-by-month basis, total gold deliveries decreased by 4.97 percent to 11205.37 kg in November 2014. Deliveries by primary producers decreased by 6.40 percent to 784.54 kg in November 2014, whilst deliveries by small-scale producers decreased by 2.18 percent to 420.83 kg in November 2014.

Table 1: Input Availability

<table>
<thead>
<tr>
<th>Type</th>
<th>Targeted Hectares</th>
<th>National Effective Demand (Tons)</th>
<th>Local Inputs In Stock (Tons)</th>
<th>Local Production + Imports Capacity Oct–Dec (Tons)</th>
<th>Local Industry Capacity (Tons)</th>
<th>Imports/ Surplus (Tons)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maize Seed</td>
<td>1 700 000</td>
<td>42 500</td>
<td>32 535</td>
<td>10 000</td>
<td>42 535</td>
<td>35</td>
</tr>
<tr>
<td>Small Grain Seed</td>
<td>485 000</td>
<td>3 000</td>
<td>2 752</td>
<td>—</td>
<td>2 752</td>
<td>(248)</td>
</tr>
<tr>
<td>Sub-total</td>
<td>2 185 000</td>
<td>45 500</td>
<td>35 287</td>
<td>10 000</td>
<td>45 287</td>
<td>(213)</td>
</tr>
<tr>
<td>Cotton Seed</td>
<td>300 000</td>
<td>6 000</td>
<td>8 000</td>
<td>—</td>
<td>8 000</td>
<td>(2 000)</td>
</tr>
<tr>
<td>Soya Bean Seed</td>
<td>40 000</td>
<td>3 600</td>
<td>4 300</td>
<td>—</td>
<td>4 300</td>
<td>(700)</td>
</tr>
<tr>
<td>Total</td>
<td>340 000</td>
<td>9 600</td>
<td>12 300</td>
<td>—</td>
<td>12 300</td>
<td>(2 700)</td>
</tr>
<tr>
<td>Compound D</td>
<td>2 225 000</td>
<td>300 000</td>
<td>52 430</td>
<td>243 570</td>
<td>296 000</td>
<td>(4 000)</td>
</tr>
<tr>
<td>Ammonium Nitrate</td>
<td>2 225 000</td>
<td>300 000</td>
<td>103 200</td>
<td>132 300</td>
<td>235 500</td>
<td>(64 500)</td>
</tr>
<tr>
<td>Sub-total</td>
<td>4 450 000</td>
<td>600 000</td>
<td>155 630</td>
<td>375 870</td>
<td>531 500</td>
<td>(68 500)</td>
</tr>
<tr>
<td>Lime</td>
<td>2 225 000</td>
<td>20 000</td>
<td>—</td>
<td>—</td>
<td>30 000</td>
<td>10 000</td>
</tr>
</tbody>
</table>

Source: 2015 National Budget Statement

Figure 4: Livestock Production between 2009 and 2014

Source: MoFED, RBZ and ZIMSTAT
4.2.3 Other Mining Developments

The government of Zimbabwe, through the 2015 National Budget announced that it will be resuscitating the Zimbabwe Mining Revenue Transparency Initiative (ZMRTI) which was launched in September 2011 in order to enhance transparency and accountability in the sector. It is envisaged that the initiative will ensure that the country’s mineral wealth and natural resources are developed and exploited for national benefit in order to reduce poverty and enhance economic and social transformation. It is also imperative that the government revives the initiative and institutionalize it through coordination between the Ministry of Finance and Economic Development and the Ministry of Mines and Mining Development. However, there is need for sustained commitment from the government on the implementation of the ZMRTI to bring the intended results of transparency and accountability to the country.

Government has extended the deadline for the construction of a platinum refinery unit to December 2016 and deferred charging of the 15 per cent tax on the export of raw platinum from 1 January 2015 to January 2017. These measures are expected to assist platinum mining companies raise needed capital towards the setting up of a refinery unit for mineral beneficiation while taking cognisance of the current low platinum prices and general liquidity constraints.

4.3 Manufacturing

As per the 2015 National Budget Statement, the manufacturing sector is expected to register a marginal growth of 1.7 percent in 2015. In addition to extending the period of temporary protection for the set of products announced in the Mid-Term Fiscal Policy Review by a further twelve months, new measures of import duty protection were announced. The measures also targeted the baking industry among others. This targeted the importation of products such as dough, rolls, buns, plain bread and cakes which were deemed non-productive.

During the period January to October 2014, total imports for these products was about USD21.8 million (0.41 percent of total imports), having decreased by about 8 percent compared to the same period in 2013. The extent to which the measures would help the baking industry would also depend on the individual product concerned. The statistics reveal that some of the products which would be subjected to import duty were imported in such low volumes that they would not cause much difference in the baking industry. For example, only about USD 2,000 worth of crisp and plain bread was imported into the country in the ten months to October, even though the products are now subject for protection. This level of competition is certainly too low to create benefits to the industry even if imports of the products are totally eliminated. It is mostly biscuits and corn flakes (whose total imports constitute about 84.9 percent for all the baking products listed) that were imported in significant volumes to be considered a threat to local industry.

Targeting only the products that are imported in significant volumes could be argued to enhance the capacity of the local industry. For the products imported in very low volumes, import competition could have

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1 Other sectors targeted include the furniture, metals and electrical industries.
played an insignificant contributory role to the numerous challenges that characterise the baking sector. In this regard the baking industry is unlikely to improve its performance without addressing the high cost of doing business, liquidity and input supply constraints generally affecting industries in Zimbabwe.

4.4 Tourism

The government continues to show commitment to the growth of the tourism sector as it announced in the 2015 National Budget Statement an extension of the rebate of duty on capital goods imported by tourism operators by another year to December 2016. The move will enable refurbishing of hotels and conference facilities which has been ongoing to continue. The government also announced an extension by another year of the suspension of duty on motor vehicles imported by Safari Tour operators to December 2016. The facility has been very instrumental in assisting tour operators replace ageing vehicles and upgrade their services to match international standards. The rebate extension and suspension of duty however, need to be complemented by efforts from other stakeholders, for example banks through availing of loans that can help operators acquire the needed assets.

The KAZA Uni-Visa between Zambia and Zimbabwe was officially launched in Victoria Falls on the 28th of November 2014, after a similar event was done at the World Travel Market in London earlier in the month. The uni-visa will cost USD50 and is valid for 30 days as long as visitors remain in Zimbabwe and Zambia. Visitors can cross into Zimbabwe/Zambia as frequently as they would like within the 30 day period. The uni-visa also covers those who wish to visit Botswana for day trips through the Kazangula Borders. The uni-visa will, however, not be valid if one is staying in Botswana overnight. In such a case a new visa would be required. Visitors can still purchase normal single and double entry visas which are, however, more costly. By purchasing a uni-visa visitors will save a lot of money for other activities as the USD50 charged covers all entries whereas a visitor staying in Zimbabwe under normal visa but undertaking a day activity in Zambia would pay USD45 double entry visa and also USD20 Zambia day tripper visa. Similar initiatives with other SADC countries can enhance tourism traffic within the region as well as intra-SADC cross border trade.

5. MACROECONOMIC OVERVIEW

5.1 The Financial and Monetary Sector

5.1.1 Stock Market

The industrial index opened trading at 177.73 in the month of November 2014, losing 6.28 points (-3.53 percent) before closing the month at 171.45, whilst the mining index also followed the negative trend losing 8.99 points (-8.51 percent) to close at 64.39 after opening the month’s trading at 73.38 (Figure 6). The top gainers for the month included, Wilddale Limited (81.82 percent), Hwange Colliery Company (33.17 percent), Cafca Limited (25 percent), African Sun Limited (20 percent) and ZB Financial Holding (20 percent), whilst the top losers for the month were Pelhams Limited (66.67 percent), Medtech Holdings (40 percent), FBC Holdings (37.5 percent) and Cottco Holdings Limited (33.3 percent). 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. A monthly comparison of stock market activities showed that whilst Turnover value went up by 23.03 percent and turnover volume decreased by 0.38 percent between October 2014 and November 2014: The counters that were traded the most on the local bourse in October 2014 were Econet Wireless Zimbabwe, Delta Corporation, Innscor Africa, ABC Holdings and CBZ Holdings accounting for a combined total of 68.87 percent of the value of trades executed at the Zimbabwe Stock Exchange (ZSE). Meanwhile the share of foreign investors in total turnover increased to 62.13 percent in November 2014 compared to 60.6 percent in October 2014, whilst market capitalisation further declined by 3.15 percent from USD 4.66 billion in October 2014 to USD 4.52 billion in November 2014.

On a year by year comparison, the industrial index closed 171.45 in November 2014, failing to surpass its performance by 41.59 points (19.5 percent) from the November 2013 figure of 213.04. The mining index closed the month of November 2014 trading at 64.39, thus despite showing signs of declining, surpassed its performance in November 2013 by 17.37 points (36.9 percent) (Figure 6).
An annual comparison of stock market activities showed that both turnover value and volume declined by 0.59 percent and 17.52 percent respectively from USD34.97 million and 188.97 million shares in November 2013. The decline in stock market activities is attributed to the slowdown in the general economic activities. On the other hand the value of shares bought by foreigners declined by 9.08 percent whilst the volume increased by 47.63 percent. Table 2 shows that the value and volume of shares sold by foreigners increased by 55.37 percent and 48.82 percent, respectively. Market capitalization, declined by 17.92 percent in November 2014 from USD 5.504 billion in November 2013. The decline was underpinned by the poor performance of the stock market.

In regional developments the Malawi All Share Index was the best performer gaining 3.54 percent buoyed by a depreciating Malawian Kwacha and rising inflation, whilst the Zimbabwe Stock Exchange performed poorly among its peers (losing 3.53 percent and 8.51 percent on the Industrial and Mining indices respectively) as a result of slowdown in economic activities. Table 3 summarizes regional stock market developments.

Table 2: Summary Statistics for the Zimbabwe Stock Exchange for November 2013 and 2014

<table>
<thead>
<tr>
<th>Date</th>
<th>Nov-13</th>
<th>Nov-14</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Value (USD)</td>
<td>34,970,666.15</td>
<td>34,765,242.77</td>
<td>(0.59)</td>
</tr>
<tr>
<td>Turnover Volume</td>
<td>188,969,052</td>
<td>155,854,066</td>
<td>(17.52)</td>
</tr>
<tr>
<td>Value of Shares bought by foreigners (USD)</td>
<td>23,756,734.45</td>
<td>21,599,086.87</td>
<td>(9.08)</td>
</tr>
<tr>
<td>Value of Shares sold by foreigners (USD)</td>
<td>13,745,526.50</td>
<td>21,356,326.04</td>
<td>55.37</td>
</tr>
<tr>
<td>Volume of Shares bought by foreigners</td>
<td>60,453,811</td>
<td>89,249,409</td>
<td>47.63</td>
</tr>
<tr>
<td>Volume of Shares sold by foreigners</td>
<td>37,123,682</td>
<td>55,248,298</td>
<td>48.82</td>
</tr>
<tr>
<td>Market Capitalisation (USD)</td>
<td>5,504,053,496</td>
<td>4,517,926,188</td>
<td>(17.92)</td>
</tr>
</tbody>
</table>

Source: Zimbabwe Stock Exchange

Table 3: Regional Stock Market developments November 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
<th>Open</th>
<th>Close</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>Malawi All Share Index</td>
<td>14,127.41</td>
<td>14,626.91</td>
<td>3.54</td>
</tr>
<tr>
<td>Zambia</td>
<td>Lusaka All Share Index</td>
<td>6,182.94</td>
<td>6,173.93</td>
<td>(0.15)</td>
</tr>
<tr>
<td>Botswana</td>
<td>Foreign Companies Index</td>
<td>1,580.38</td>
<td>1,577.94</td>
<td>(0.15)</td>
</tr>
<tr>
<td>South Africa</td>
<td>Johannesburg All Share Index</td>
<td>50,022.64</td>
<td>49,911.37</td>
<td>(0.22)</td>
</tr>
<tr>
<td>Botswana</td>
<td>Domestic Companies Index</td>
<td>9,563.66</td>
<td>9,523.27</td>
<td>(0.42)</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Mauritius All Share Index</td>
<td>2,129.7</td>
<td>2,100.46</td>
<td>(1.37)</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Industrial Index</td>
<td>177.73</td>
<td>171.45</td>
<td>(3.53)</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Mining Index</td>
<td>70.38</td>
<td>64.39</td>
<td>(8.51)</td>
</tr>
</tbody>
</table>

Source: African Financials
5.1.2 Interest Rates

Real average weighted lending rates for commercial and merchant banks tightened over the period September 2013 to September 2014. Commercial real averaged weighted lending rates for individuals and corporates increased from 13.36 percent and 8.66 percent in September 2013 to 14.36 percent and 9.48 percent in September 2014, respectively. Similarly, merchant bank real weighted average lending rates for individuals and corporates increased over the same period from 18.08 percent and 17.07 percent to 18.91 percent and 17.91 percent, respectively (see Figure 7).

![Figure 7: Real Interest Rate Levels](source: Own calculations from RBZ and ZIMSTAT data)

The tightening of real lending rates is partly explained by limited liquidity in the economy, high non-performing loans, unfavourable business environment and perceived high country risk. In an environment where currently available income and liquid assets constrain the ability of economic agents to spend, higher lending rates would discourage borrowing and reduce real consumption and investment expenditures.

5.1.3 Monetary Developments

Annual growth in broad money supply (M3) increased from 3.6 percent in October 2013 to 8.66 percent in September 2013 to 14.36 percent and 9.48 percent in September 2014, respectively. Similarly, merchant bank real weighted average lending rates for individuals and corporates increased over the same period from 18.08 percent and 17.07 percent to 18.91 percent and 17.91 percent, respectively (see Figure 7).

![Figure 8: Annual & Monthly Money Supply Growth and Total Bank Deposits, September 2014](source: RBZ Monthly Economic Review)

The tightening of real lending rates is partly explained by limited liquidity in the economy, high non-performing loans, unfavourable business environment and perceived high country risk. In an environment where currently available income and liquid assets constrain the ability of economic agents to spend, higher lending rates would discourage borrowing and reduce real consumption and investment expenditures.

Figure 8: Annual & Monthly Money Supply Growth and Total Bank Deposits, September 2014

Source: Own calculations from RBZ and ZIMSTAT data

The tightening of real lending rates is partly explained by limited liquidity in the economy, high non-performing loans, unfavourable business environment and perceived high country risk. In an environment where currently available income and liquid assets constrain the ability of economic agents to spend, higher lending rates would discourage borrowing and reduce real consumption and investment expenditures.

5.1.3 Monetary Developments

Annual growth in broad money supply (M3) increased from 3.6 percent in October 2013 to 12.8 percent in October 2014, reflecting the growth of total bank deposits from USD3.95 billion to USD4.46 billion over the period (Figure 8). All the deposits classes increased, with long-term deposits recording the largest increase of 41.3 percent to constitute a share of 19.4 percent of total deposits as at end of October 2014 (Table 4). The increase in the stock and share of long-term deposits implies improving depositors’ confidence in the banking system. However, it could also reflect lack of alternative investments and preference by economic agents to hold on to deposits as a safe and liquid asset under conditions of heightened uncertainty about the economy.

Money supply (M3) growth surges from 3.6 percent in September to 12.8 percent in October 2014 on the back of an increase in total bank deposits from USD3.95 billion to USD4.46 billion over the period.

---

2 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.
The move by RBZ to introduce bond coins worth USD10 million over the period 18 December 2014 to March 2015 will slightly increase the stock of money in the economy while alleviating the ‘small change’ problem as discussed in section 5.2.

Table 4: Composition of Total Banking Sector Deposits (USD billion)

<table>
<thead>
<tr>
<th>Type of deposit</th>
<th>October 2013</th>
<th>October 2014</th>
<th>Annual increase (absolute) USD billion</th>
<th>Annual increase (percent)</th>
<th>Share in total deposits as at end October 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Deposits</td>
<td>2.08</td>
<td>2.20</td>
<td>0.12</td>
<td>5.67</td>
<td>49.42</td>
</tr>
<tr>
<td>Saving &amp; Short-Term Deposits</td>
<td>1.26</td>
<td>1.39</td>
<td>0.14</td>
<td>10.75</td>
<td>31.21</td>
</tr>
<tr>
<td>Long-Term Deposits</td>
<td>0.61</td>
<td>0.86</td>
<td>0.25</td>
<td>41.30</td>
<td>19.37</td>
</tr>
<tr>
<td>Total Deposits</td>
<td>3.95</td>
<td>4.46</td>
<td>0.51</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: RBZ Monthly Economic Review

While annual growth in total banking sector deposits surged, the annual growth in domestic credit decelerated from 16.5 percent in October 2013 to 6.2 percent in October 2014, mainly as a result of conservative lending approach by banking institutions in the face of very high non-performing loans (21.1 percent as at 13 September 2014). As at end of October 2014, the stock of credit to the private sector only increased by 1.8 percent from USD3.72 billion recorded in 2013. The stock of credit to Government and Parastatals increased by 57.0 percent and 21.8 percent, respectively, from USD299.69 million and USD59.42 million. The private sector still gets a lion’s share of domestic credit (87.5 percent) and this, in principle, is expected since the private sector is the engine of economic growth. However, private sector credit continued to decline from 96.3 percent in October 2012 to 91.2 percent in October 2013 and 87.5 percent in October 2014. The increase in credit to Government and Parastatals at a time when private sector credit is declining could raise concerns of government borrowing crowding out private investment borrowing. This could stifle economic growth especially where government borrowings are targeted towards recurrent expenditure as opposed to capital expenditure.

Out of USD3.79 billion in private sector credit, 82.8 percent was distributed as loans & advances as at end of October 2014. The latest statistics on sectoral distribution of loans & advances (i.e. September 2014) show that about 82.3 percent of loans & advances are distributed to agriculture, individuals, distribution, manufacturing and services (Figure 9).

Figure 9: Sectoral Distribution of Loans & Advances to the Privates Sector, September 2014

Source: RBZ

Generally, the sectoral concentration of loans & advances as measured by the Hirschman Herfindahl Index (HHI) and Gini coefficient (GI) is moderate over the periods September 2011 to September 2014 (Table 5). Thus, the total banking sector loan book is moderately spread across all the sectors, avoiding over exposure to particular sector.

| 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. 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. |
5.2 Other Financial Sector Developments

On the 5th of December 2014, the Reserve Bank of Zimbabwe unveiled bond coins worth USD10 million that will be injected into the economy from 18 December 2014 to March 2015. The intrinsic value of the coins is backed by USD denominated bonds issued by Government. The purpose of the bond coins is to ease challenges associated with the incomplete divisibility of the USD due to lack lower denominations such as 1 cent, 5 cents, 10 cents, etc. The lack of lower denominations resulted in higher prices due to rounding up to the next dollar, or involuntary purchase of small commodities such as sweets in lieu of change, or not getting change at all in instances when it is less than 5 cents. It is envisaged that the introduction of these bond coins will result in the correct pricing of commodities in the economy and reduce inflation. There is need for authorities to continuously reassure the public that there are no intentions of introducing the local currency until requisite conditions are met so as to allay any such suspicions.

The 2015 National Budget Statement highlighted that six banking institutions (excluding Post Office Savings Bank) were non-compliant with minimum capital requirements. These include Afrasia, Agribank, Allied Bank, Metbank, Tetrad Investment, and ZB Building Society. Treasury through the National budget made provision of USD110 million for recapitalization of the RBZ. The targeted amount required for RBZ to effectively perform its lender of last resort is between USD150 – USD200 million. The presence of undercapitalized banks in the economy makes the banking sector fragile and reduces confidence in the sector.

5.3 Inflation

Year on year inflation rate for the month of November 2014 stood at -0.78 percent, shedding 0.78 percentage points from the October 2014 rate of -0.001 percent. The decline in annual inflation was mainly weighed down by non-food inflation which stood at 0.17 percent for the month of November 2014, shedding 1.42 percentage points from the October 2014 rate of 1.59 percent. However, food and non-alcoholic beverages inflation for the month of November 2014 stood at -2.75 percent, gaining 0.48 percentage points from the October 2014 rate of -3.23 percent (Figure 10).

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

The decline in both annual inflation and monthly inflation was underpinned by weak aggregate demand, both at micro and macro level.
The decline in both annual inflation and monthly inflation was underpinned by weak aggregate demand, both at micro and macro level. Households have low disposable incomes for expenditure, and the government is faced with limited fiscal space. The weakening of the South African rand against the US dollar also contributed to the decline in the inflation rate. To avert deflation, the Government needs to put in place policy measures that stimulate aggregate demand.

Zimbabwe recorded the lowest inflation rate compared to other countries in the SADC region. Mozambique, Mauritius and Seychelles also have low inflation rates of 1.8 percent, 0.9 percent and 0.2 percent respectively (Table 6). South Africa’s inflation slowed down marginally to 5.8 percent from 5.9 percent, staying in the central bank’s target range of 3-6 percent, for the third month. Hence, there generally low inflation in the region except for Malawi which recorded a rate of 23.70 percent in November of 2014, way above the SADC convergence target of below 5 percent.

Table 6: Trend in SADC Region Inflation, July 2014-November 2014

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Zambia</td>
<td>8.0</td>
<td>8.0</td>
<td>7.8</td>
<td>7.9</td>
<td>8.1</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>
</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>
</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>
</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>
</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>
</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>
</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>
</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>
</tr>
<tr>
<td>Malawi</td>
<td>22.3</td>
<td>24.5</td>
<td>23.7</td>
<td>23.3</td>
<td>23.7</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>
</tr>
</tbody>
</table>

Source: Trading Economics/Zimbabwe Statistical Agency
5.4 External Sector

A total of about USD5.3 billion worth of products were imported between January and October 2014, which is a decrease of about 18.9 percent compared to the same period in 2013. While imports for all the months in 2014 had been below the value for corresponding months in 2013 (Figure 12), there is a noticeable change in October 2014, where imports were actually higher than in October 2013. Imports in October 2014 increased by about 5.4 percent compared to October 2013, which can be attributed to huge importation of fertilizer in October 2014. Compared to October 2013, fertilizer imports increased by about 140 percent in October 2014 to about USD 38.6 million, constituting about 6 percent of total imports.

5.5 Fiscal Policy

5.5.1 Revenues outturn

The government revenue outturn for the month of October 2014 amounted to USD306.78 million with the various revenue heads performing lower than expected as the tax base shrinks owing to depressed economic activities, whilst government expenditure has remained consumptive with current expenditure accounting for 91.6 percent of total expenditure.

Table 7: Performance and contribution of Revenue heads

<table>
<thead>
<tr>
<th>Revenue Head</th>
<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>34.2</td>
<td>(9.1)</td>
</tr>
<tr>
<td>Customs Duties</td>
<td>11.6</td>
<td>(8.1)</td>
</tr>
<tr>
<td>Excise Duties</td>
<td>16.8</td>
<td>(5.9)</td>
</tr>
<tr>
<td>Value Added Tax (VAT)</td>
<td>30.1</td>
<td>(21.2)</td>
</tr>
<tr>
<td>Non-Tax Revenue</td>
<td>3.6</td>
<td>(66.1)</td>
</tr>
<tr>
<td>Other Indirect Taxes</td>
<td>3.8</td>
<td>14.8</td>
</tr>
</tbody>
</table>

Source: MoFED
Cumulative revenue for the ten months amounted to USD 3.04 billion; 7.13 percent short of the cumulative target of USD 3.27 billion. This poor performance was underpinned by the poor performance in the tax revenue heads on the back of depressed economic activities. On a year on year comparison the cumulative outturn to October 2014 fell short by 2.06 percent to surpass the USD 3.10 billion realised over the same period in 2013.

Figure 13: Revenue and Expenditure Performance (USD Millions), January to October 2014

Source: MoFED

5.5.2 Expenditure Outturn

For the month of October 2014, total government expenditure and net lending stood at USD 344.15 million, with current expenditure accounting for 91.6 percent of total expenditure, with the remainder being capital expenditures. On the other hand wage related costs accounted for 58.05 percent of the recurrent expenditure. The resultant revenue and expenditure outturns for the month of October 2014 culminated in a deficit of USD 37.36 million (Figure 13).

Cumulative government expenditure for the ten months to October 2014 amounted to USD3.13 billion against revenue of USD3.04 billion, resulting in a primary deficit of USD91.97 million. The government is, therefore, faced with the twin challenge of rebalancing its fiscal stance whilst at the same time improving its expenditure mix. Therefore in the medium-to-long term fiscal policy stance, the government should rationalize its expenditure and put more emphasis on capital and social expenditures.

On the 27th of November 2014, the Minister of Finance announced a USD4.1 billion Budget for the 2015 fiscal year which projected GDP growth of 3.2 percent. The major highlights of the budget were:

- Reduction of excise duty on clear beers from 45 percent to 40 percent with effect from 1 January 2015.
- Exemption from tax on interest earned on loans to statutory corporations with effect from February 2015 and this is expected to promote lending to parastatals and local government authorities.
- Extension of the AIDS levy to companies engaged in the business of mining with effect from 1 January 2015.
- Increase excise duty on cigarettes from USD15 per 1 000 sticks to USD20 per 1 000 sticks, with effect from 1 December 2014.

These measures are expected to enhance government revenue mobilisation in the face of a shrinking tax base as economic activities slow down. However, individuals got a slight relief as tax free threshold for Pay as You Earn (PAYE) was raised from USD250 to USD300.

5.5.3 External Debt development

In the 2015 Budget, the Minister of Finance projected that by December 2014 the country’s external debt stock will stand at USD7.225 billion (52 percent of GDP). Accumulated arrears accounted for 81 percent of the total external debt stock as the country has been failing to service its loans due to limited fiscal space. The Zimbabwean
6.1 **Zimbabwe’s Sovereign Wealth Fund (SWF) Awaiting Operationalization**

According to 2015 National Budget Statement the legal framework for the establishment of a Sovereign Wealth Fund is now in place and awaits operationalization. A budget of USD500 thousand was allocated to the Sovereign Wealth Fund and further funding will come from 25 percent of royalties on the export sale of minerals which include diamonds, gas, and granite through the Zimbabwe Mining Development Corporation (ZMDC). The sovereign wealth fund is meant to ensure that the finite mineral resources of the country are managed to benefit the present and future generations. The Government intends to set up dedicated windows for long-term Human and physical Infrastructure fund, Fiscal stabilization fund and a Minerals development fund. The Minerals Development Fund is intended to build a fund for investment mining development including financing of geological survey to acquire a better understanding of the geology and to uncover new exploration targets. In addition, it can finance investments into the backward and forward mineral linkages industries in partnership with the private sector. A major proportion of the resource rent tax revenues could be accumulated into a stabilisation fund that can be drawn down by the fiscus when commodity prices fall below predetermined long-term projections, protecting the budget from revenue shocks. This fund would, over time, become a Future Fund (intergenerational equity) for the nation to draw on as mineral resources are depleted since minerals are a finite resource. Zimbabwe can draw lessons from a number of countries within and outside Africa that have set-up mineral based SWFs as it proceeds with this initiative.