

ZIMBABWE MONTHLY ECONOMIC REVIEW

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1. Macroeconomic Developments

1.1 Overview of the Economy

The 2012 National Budget was presented on the 24th of November 2011. The Government still projects the economy to grow by 9.3 percent in 2011 and by 9.4 percent in 2012. Nominal gross domestic product (GDP) is estimated at US\$11.9 billion in 2012. Inflation is projected to close 2011 at 4.1 percent and to average 5.0 percent in 2012. The 2012 projections are based on the assumption that some of the economic challenges are going to be eased. These challenges include persistent liquidity shortages in the context of uncertainty and risk and frequent electricity outages.

The weak depositor confidence in the formal banking sector and low average incomes, and overall assessment of risk among other factors, explain the persisting liquidity shortages. In addition, limited external lines of credit due to perceived country risk and the huge debt and arrears have compounded the liquidity shortages. The on-going implementation of the indigenization and economic empowerment laws and the expected national elections in 2012 continue to weaken external investor confidence. The achievement of the 2012 projections is therefore subject to a stable political and economic environment, a steady supply of electricity and water, adherence to the Government Cash-Budgeting System and continued firming of the international commodity prices or increase in output. To ease the liquidity shortages, the Minister of Finance allocated US\$100 million to the central bank as lender of the last resort facility and to relieve the currently limited inter-bank lending. This amount is, however too small to ease the prevailing liquidity shortages. There is need for measures to restore bank depositor confidence in the formal banking sector to harness cash that is circulating outside the formal banking sector into the formal banking sector.

1.2 Agriculture Sector Developments

The 2012 National Budget Statement forecasts the agricultural sector to grow by 11.6 percent. The month of November saw the coming into full swing of the 2011-2012 planting season. To assist farmers in the current cropping season, the government started distributing subsidised inputs under the US\$45 million subsidised inputs scheme through the Grain Marketing Board (GMB), targeting 500 000 farmers. Furthermore, tobacco farmers started planting irrigated tobacco, with at least 11000

hectares having been planted by end-November 2011. This is a slight decline from the 13000 hectares planted over the same period last season, although the hectarage is expected to increase towards the end of the year.

1.3 Mining Sector Developments

The mining sector is anticipated to remain the major driving force behind overall economic growth, benefitting from further private capital injections and firming international commodity prices. The sector benefited from lines of credit in support of

investment in equipment to the tune of US\$502 million in 2011. The sector is estimated to grow by 25.8 percent in 2011 and is projected to grow by 15.9 percent in 2012. Expansion in output is forecast for all minerals except black granite in the backdrop of favourable international commodity prices and a stable macroeconomic environment (Table 1). In addition, the prioritization of mining concerns in the supply of electricity by the Zimbabwe Electricity Transmission and Distribution Company (ZETDC) has supported sustained mineral production in 2011.

Table 1. Annual Mineral Production, 2010 -2012

Mineral Product	2010 Actual	2011 Forecast	2012 Projection
Gold/kg	9,620	13,000	15,000
Nickel/t	6,133	7,700	8,800
Coal/t	2,668,183	3,000,000	3,500,000
Chrome/t	516,776	700,000	750,000
Platinum/kg	8,639	10,500	12,000
Palladium/kg	6,916	8,400	9,600
Black, Granite/t	169,318	168,000	170,811

Source: 2012 National Budget Statement

Exports from the mining sector are projected to contribute half of the 2011 total exports, which are estimated at US\$4.4 billion. The National Treasury also received diamond dividends to the tune of US\$80.6 million as at 11 November 2011.

The 2012 National Budget Statement proposed to increase royalties on gold from 4.5 percent to 7 percent while those for platinum would double to 10 percent, effective January 2012. The main purpose of the increases is to increase the mining sector's contribution to the fiscus and to balance the economy by allowing the government to redistribute a portion of wealth gained in mining and resource extraction. However, the increase in royalties can result in a fall in production as those firms mining in low grade areas will be faced by an increase in per unit cost of production, hence they will be forced to reduce output. This also implies that potential investors could be discouraged from investing in low grade ore fields by the increased cost of production and the reduction in profitability.

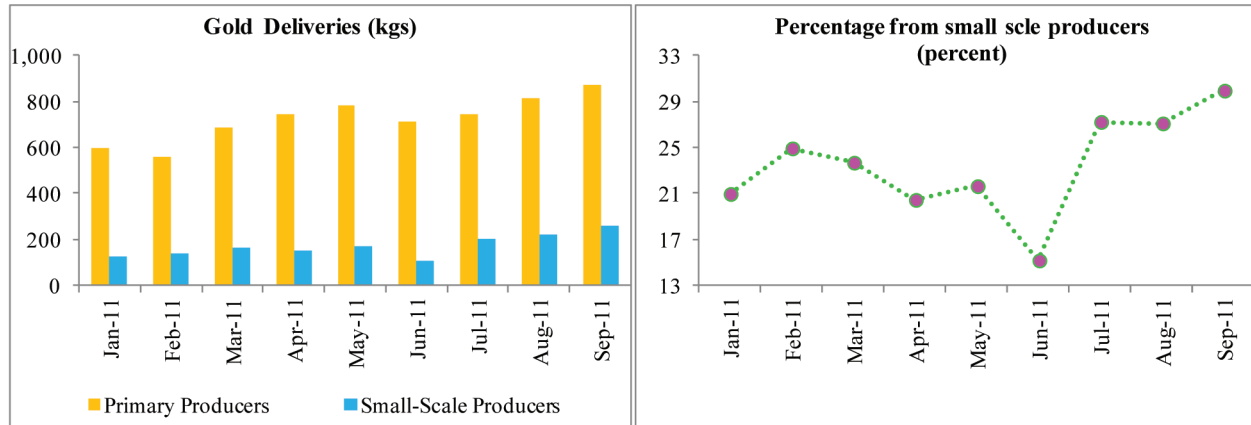
The Zimbabwean Government has also proposed to increase mineral exploration fees by up to 1000 percent starting in January 2012. The fee increase is part of the Government measures to curb the holding of mineral claims for speculative purposes. This measure will also be accompanied by the use it or lose it policy that empowers Government to repossess the claims that are not being utilized and resell them to other prospective entities.

The Anglo-American Corporation, in compliance with the country's indigenization laws presented a US\$10 million cheque and a share certificate for the 10 percent stake in its mines to the Tongogara Community Share Ownership Trust at its Unki-Mine in Shurugwi. Section 14 of the Indigenization and Economic Empowerment Regulation provides for the creation of Community share ownership schemes that allow communities affected by mining operations to benefit from the revenue realized from mining operations through community projects such as hospitals, schools, irrigation and road construction. The community

share ownership schemes are a vehicle for which mining firms can dispose of their shares in line with the Indigenization and Economic Empowerment Regulation.

The month of November was characterized by a reduction in the production of gold by the small-scale producers by some 6 percent

Figure 1. Gold Deliveries (January-November 2011)



Source: Reserve Bank of Zimbabwe

Primary producers managed to stabilize their production of the precious metal at 770 kilograms, reversing the decline that occurred in the previous month of October. The 2012 National Budget Statement proposed to set aside a US\$1 million mining loan fund to assist small-scale miners particularly those in gold and chrome.

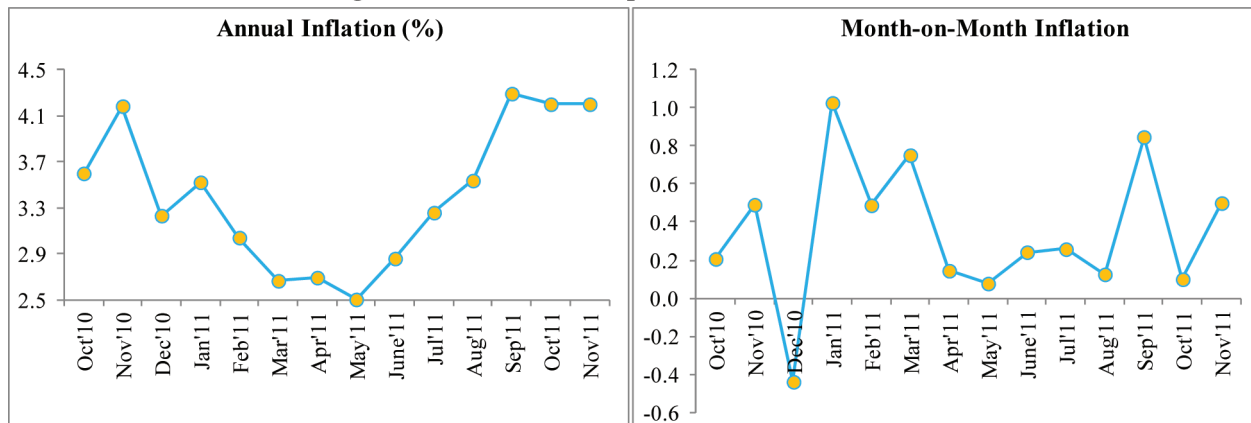
inflation increased from 0.12 percent in October 2011 to 0.51 percent in November 2011. Month-on-month food and non-food inflation stood at 1.48 percent and 0.09 percent, respectively.

1.4 Inflation Developments

In November 2011, annual inflation remained unchanged from the October figure of 4.23 percent. This outcome is in line with the single-digit inflation levels targeted by Government and is low relative to the SADC regional averages. Annual food and non-food inflation stood at 3.81 percent and 4.41 percent, respectively. On a month-on-month basis,

The main drivers of annual inflation included communications; transport; housing, water, electricity and other fuels; and education. Housing rentals, rates and domestic power have been key drivers of inflation. With low average incomes and loss of employment in some sectors of the economy, a number of people are relying on housing rental income as a major source of income, implying a continuous upward review of housing rentals. Inflation is projected at 5.1 percent for December 2011.

Figure 2. Inflation Developments in November 2011



Source: ZIMSTAT December 2011.

1.5 Interest Rate Developments

The commercial banks weighted average base lending rates increased from 12.6 percent per annum in September 2011 to 13.1 percent per annum in October 2011 (Table 2). The merchant

bank weighted average base lending rates remained unchanged but are still considerably high. The 3-month deposit rate remained unchanged at 8.6 percent per annum while the savings rate increased from 1 percent per annum in September to 2.6 percent per annum in October.

Table 2. Interest Rate Levels (Annual Percentages)

Month	Commercial Bank Average Base Lending Rate	Commercial Bank Weighted Average Base Lending Rate	Merchant Bank Average Base Lending Rate	Merchant Bank Weighted Average Base Lending Rate	3-Month Deposit Rate	Savings Deposit Rate
Jan-11	1.26-28.00	9.5	11.00-34.00	29.5	9.3	1.0
Feb-11	1.26-28.00	14.0	15.00-34.00	27.1	9.3	1.0
Mar-11	1.26-28.00	9.5	16.00-32.00	19.9	8.3	1.0
Apr-11	1.26-28.00	9.5	16.00-32.00	18.3	8.6	3.2
May-11	8.00-30.00	12.8	15.00-32.00	18.1	8.6	2.7
Jun-11	8.00-30.00	11.2	16.00-32.00	17.3	8.6	2.6
Jul-11	8.00-30.00	11.0	16.00-32.00	18.2	8.6	2.7
Aug-11	8.00-30.00	12.1	16.00-32.00	18.9	8.6	2.7
Sep-11	8.00-30.00	12.6	16.00-32.00	19.6	8.6	1.0
Oct-11	8.00-30.00	13.1	15.00-32.00	19.6	8.6	2.6
Average	...	11.4	...	20.8	8.7	2.1

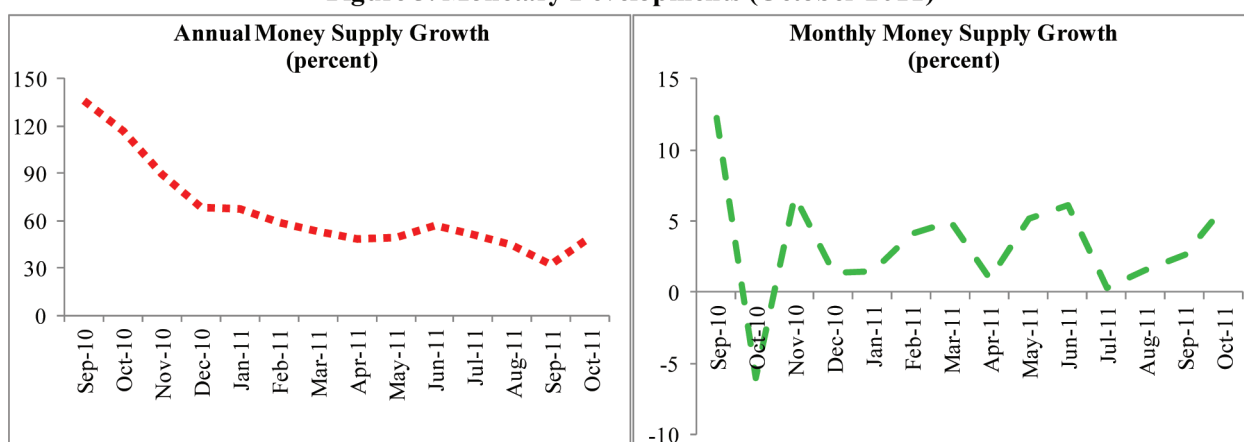
Source: Reserve Bank of Zimbabwe

1.6 Monetary Developments

Annual broad money supply (M3) growth, defined as total banking sector deposits, increased from

32.3 percent in September 2011 to 49.3 percent in October 2011 (Figure 3).

Figure 3. Monetary Developments (October 2011)



Source: RBZ (October 2011)

On a month-on-month basis, M3 growth increased from 2.6 percent in September 2011 to 6 percent in October 2011.

Total banking sector deposits, which are net of inter-bank deposits, increased from US\$3.03 billion in September 2011 to US\$3.21 billion in

October 2011. The increase was attributed to an increase by US\$211.64 million (24.5 percent) in saving and short-term deposits and US\$19.12 million (1.05 percent) in demand deposits. As shown in table 5, these increases were partially

off-set by a decline in long-term deposits by US\$48.14 million (13.8 percent). The decline in long term deposits reflects the focus of economic operators on the short-end of the market in Zimbabwe given perceived risks.

Table 3. Level of Banking Sector Deposits in October 2011

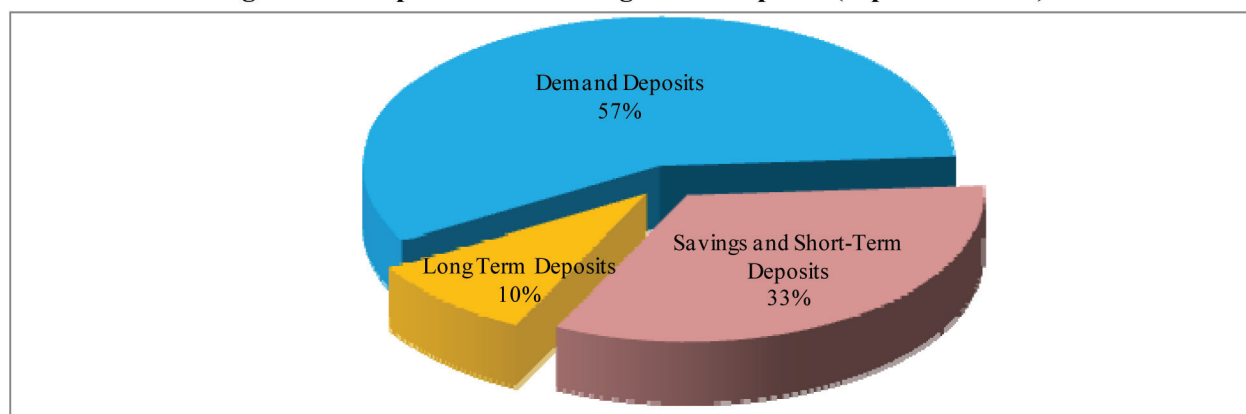
Type of Deposit	US\$ Billion (Aug 2011)	percent of Total Deposits (Aug 2011)	US\$ Billion (Sep 2011)	percent of Total Deposits (Sep 2011)	Monthly Change US\$ Million (percent)
Demand Deposits	1.82	60.0 percent	1.84	57.3 percent	19.12 (1.05 percent)
Saving and Short-Term Deposits	0.86	28.5 percent	1.07	33.3 percent	211.64 (24.5 percent)
Long-Term Deposits	0.35	11.5 percent	0.3	9.4 percent	(48.14) (13.8 percent)
Total Banking Sector Deposits	3.03	...	3.21	...	182.62 (11.8 percent)

Source: Reserve Bank of Zimbabwe, October 2011.

Lending to the private sector marginally increased to US\$2.8 billion in October 2011, from US\$2.6 billion in September 2011. The loan-to-deposit ratio marginally increased to 86.8 percent in October

2011, from 82.4 percent in September 2011. In October 2011, loans and advances increased to 83.0 percent of total credit to the private sector, from 82.4 percent in September 2011.

Figure 4. Composition of Banking Sector Deposits (September 2011)



Source: RBZ, October 2011.

Demand and short-term deposits continue to dominate the banking sector deposits, resulting in bank lending being short-term in nature (Figure 4).

1.7 Fiscal Performance

The Minister of finance Hon Tendai Biti presented the 2012 National Budget Statement of US\$4 billion on November 24, 2011. Tax and non-tax revenue contributes 85 percent of the total budget whereas 15 percent is to be raised from other sources (Table 4). The 2012 budget earmarks 80 percent of the resources for recurrent expenditure and 20

percent (US\$800,000) for capital expenditure was allocated only US\$800 000 (20 percent of the total budget). Given Zimbabwe's infrastructure requirements and spending targets projected under the Medium Term Plan (MTP), the budget allocation for capital expenditure is inadequate to sustain the funding requirements. Energy and water & sanitation were allocated 1.2 percent and 2.8 percent, respectively, despite the challenges faced by these key sectors' infrastructure. The funds allocated to these sectors is not enough for the rehabilitation of the dilapidated infrastructure. This demonstrates the need to encourage private

sector investment in these sectors by making sure tariffs are set at cost recovery levels. Furthermore, the need for Zimbabwe to find a way of resolving

its external debt and arrears situation is critical. The needed investments are simply not going to materialize without addressing this important issue.

Table 4. The 2012 National Budget Framework

	Sep-11 (Actual)	Sep-11 (Target)
Total Revenue/Total Expenditure	4,000.0	...
Tax and Non-Tax Revenue	3,400.0	85.0 percent
Other Revenue	600.0	15.0 percent
Recurrent Expenditure	3,200.0	80.0 percent
Capital Expenditure	800.0	20.0 percent
Energy	49.5	1.2 percent
Water and Sanitation	113.7	2.8 percent
Agriculture	226.8	5.7 percent
Education	1,003.2	25.1 percent
Health	345.7	8.6 percent

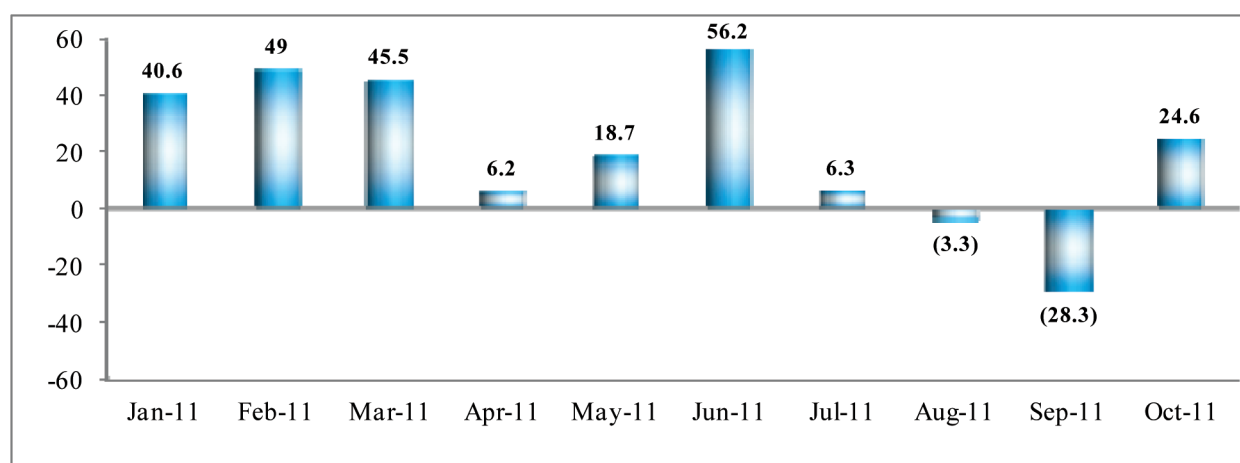
Source: Ministry of Finance (MoF), 2012 National Budget Statement

Education was given highest priority, receiving about US\$1 billion (25.1 percent of the total budget).

Having recorded a monthly fiscal deficit of US\$3.3 million and US\$28.3 million in August and September 2011, respectively, Government posted

a fiscal surplus of US\$26.46 million in October 2011 (Figure 5). Total revenues for the month of October 2011 amounted to US\$245.7 million against total expenditures of US\$219.2 million, resulting in the aforesaid surplus of US\$26.46 million.

Figure 5. Fiscal Balance (January-October 2011), US\$ Million



Source: Ministry of Finance (MoF)

The surplus recorded in October was on account of a reduction in total expenditures, as opposed to increased revenue collections. Total revenues collected fell from US\$264.22 million to US\$245.67 million mainly on account of underperformance of tax revenues, which fell by

13.93 percent to US\$213.94 million. Although total expenditures were above the target of US\$209.17 million, the expenditure outturn for October of US\$219.21 million was lower than the September outturn of US\$292.48 million. This is on the backdrop of cuts on both the recurrent

and capital budget by 12.93 percent and 67.77 percent, respectively (Table 7). Such budget cuts, particularly on the capital budget raise serious

growth constraints, given limited funding of the key growth-enhancing capital projects.

Table 5. Comparative Fiscal Performance (September-October 2011) in US\$ Million

	SEPTEMBER	OCTOBER	
	ACTUAL	ACTUAL	TARGET
Total Revenue	264,219,510.40	245,674,265.60	235,604,800.00
Tax Revenue	248,556,050.90	213,935,467.60	213,107,800.00
Non-Tax Revenue	15,663,459.50	31,738,798.00	22,497,000.00
Total Expenditure and Net Lending (Net)	292,477,274.40	219,212,416.90	209,174,000.00
Current Expenditure	228,913,638.40	199,303,725.40	167,439,000.00
Capital Expenditure	59,283,636.00	19,108,691.40	41,735,000.00
Fiscal Balance	-28.26	26.46	...

Source: Ministry of Finance

On year to date fiscal performance, revenues for the period January to September 2011 stood at US\$2.1 billion, against total expenditures for the same period of US\$1.9 billion. There was a disproportionate share of recurrent expenditures at US\$1.68 billion (80 percent), against capital expenditures of US\$0.192 billion. The wage bill outturn to end of September amounted to US\$1.21 billion, exceeding the target by around US\$193 million (63% of total expenditure). With regards to capital expenditure, a total annual allocation of US\$551 million was made in 2011. Of this amount, US\$438.8 million was allocated to projects in sectors presenting a socio-economic developmental impact. By end of September 2011, total disbursements for capital projects amounted to US\$253.5 million or 46% of the total capital budget

Government expects that the full year outturn for revenues would marginally increase to US\$2.95 billion, against the original budget target of US\$2.75 billion. Diamond revenues received by the Treasury through November 2011 amounted to US\$122.2 million. Of this amount, only \$80.6 million is attributable to 2011, with the remainder accounted for as part of 2010 revenues after reconciliation. The improved revenues relative to target notwithstanding, the structure of expenditure for the year will be distorted, mainly on account of higher than budgeted wage adjustments in January and July 2011, foreign travel, and the subsidies to agriculture. Net additional expenditure for 2011 comprising US\$403 million in employment costs and US\$192 million in other items, after netting off the anticipated higher revenue outturn of US\$2.95

billion, would be US\$391 million. In the context of the cash budget framework, the US\$391 million is being met through budget reallocations (US\$91 million) and reductions (US\$300 million) in expenditure, mainly in capital nature.

For 2012, Government has projected a revenue increase to \$4.0 on account largely of an anticipated receipt of diamond revenues of \$600 million for the year. This is underpinned by Zimbabwe being given the green light for diamond sales through Kimberley Certification. The transparency in the accounting for diamond revenues would be critical in the realization of this projection.

1.8 External Sector Developments

Exports have continued the increasing trend since 2009 and are expected to reach US\$4.4 billion in 2011, compared to some US\$1.5 billion in 2008 and a 30.2 percent growth from 2010. The main exports remain minerals, tobacco and manufactured products. The 2012 budget projects a 15.3 percent increase in exports for 2012 at US\$5.1 billion.

Total imports have also continued the strong growth registered since 2008. Total imports for 2011 is estimated at US\$6.4 billion (a growth of 23.3 percent from 2010). The current account deficit for 2011 is estimated at US\$2.0 billion, with an overall balance of payments deficit projected at US\$667.4 million. For 2012, import growth is estimated to increase to \$6.8 billion (an increase of 6.8%). The current account deficit is projected to decrease to US\$1.7 billion, with an overall balance of payments deficit of US\$610.5 million in 2012.

In a development that is likely to have implications on the Zimbabwe external sector, the South African government, business, labour and the community signed a Local Procurement Accord on October 31, 2011. This was in line with the Preferential Procurement Policy Framework Act, 2000 of South Africa, which came into effect on 7 December, 2011. The Accord is intended to ensure that at least 75 percent of procurement by South African firms is from local firms. In addition, the new regulations enable all organs of State to ensure that only locally produced services, works, goods or locally manufactured goods with a stipulated threshold for local production and content are procured.

The development is likely to have an impact on Zimbabwe's external sector due to the fact that South Africa remains the major trading partner with Zimbabwe. As revealed in the 2012 National Budget statement, about 56 percent of Zimbabwe exports are destined for South Africa, with China and the United Arab Emirates a distant second at only 6 percent. This implies that there is a potential for reduced exports.

In the immediate future however, the impact might not be as huge as what is being feared. The South Africa government has already identified the first wave of products that have to satisfy the minimum level of local content when procured. The list of designated products include power pylons, rolling stock, buses, canned vegetables, clothing, textiles, footwear, leather products and set-top boxes. Although more product lines would be designated in 2012, the impact of this first wave of products in Zimbabwe would be minimal. As reflected in the 2012 National Budget statement, as well as in a recent monthly report from ZimTrade, exports are mostly composed of unprocessed tobacco (constituting 13.5 percent of the export proceeds), minerals (over 36.8 percent) and sugar (2 percent),

which are not on the list. The clothing, textiles, footwear, leather products industries are in decline, with little room for exports. The canned vegetable market is also constrained, with Bonnezim, which was the leading producer in the country already under liquidation.

2. International Commodity Price Developments

Metal prices changed directions throughout the month of October 2011 with no clear trend, resulting in gold and copper prices closing the month firmer while prices of Nickel and Platinum were weaker. Gold and copper gained a marginal 1.4 percent and 3.2 percent, respectively, while Nickel and Platinum shaded 3.9 percent and 4.1 percent, respectively (Table 6).

Brent crude oil gained during the first 2 weeks of November 2011, mainly in response to political changes in Italy and Greece. Prices then retreated to levels attained during the beginning of the month, following the on-going decline in Libya's oil production and the concerns over the European debt crisis that might have affected oil demand in Europe and thus, reduced the pressure on Brent crude oil prices. Prices re-bounded during the last week of the month to close the month at US\$111.44/barrel. In the local market, the price of diesel slightly increased by between 1 and 2 cents, to the current range of US\$1.24/l to US\$1.32/l. Petrol, however, slightly dropped by an average of 2 cents to close the month between US\$1.34/l to US\$1.42/l. The drop in petrol prices could have been as a result of ethanol-blended fuel, which is currently being sold at US\$1.36/l. The low price of blended petrol may have caused a decrease in demand for unleaded petrol and other leaded petrol such that retailers had to reduce prices.

Table 6. International Commodity Prices in November 2011

	Gold	Platinum	Copper	Nickel	Brent Crude Oil
	US\$/tonne	US\$/tonne	US\$/tonne	US\$/tonne	US\$/barrel
1-Nov-11	1,700.5	1,602.0	7,694.5	18,650.5	107.3
7-Nov-11	1,773.0	1,650.5	7,773.5	18,710.0	114.6
14-Nov-11	1,778.3	1,648.0	7,757.5	18,012.5	113.2
21-Nov-11	1,703.0	1,570.5	7,247.5	17,497.5	107.0
28-Nov-11	1,714.0	1,557.5	7,498.0	17,297.5	108.9
30-Nov-11	1,725.0	1,536.5	7,943.5	17,915.0	111.4

Source: Bloomberg, BBC, Reuters

Table 7. Maize and Wheat Prices in November 2011

	Wheat (USA Export Price HRW)	Maize (USA)
	US\$/tonne	US\$/tonne
3-Nov-11	305	280
10-Nov-11	315	288
17-Nov-11	303	274
23-Nov-11	279	259

Source: International Grain Council

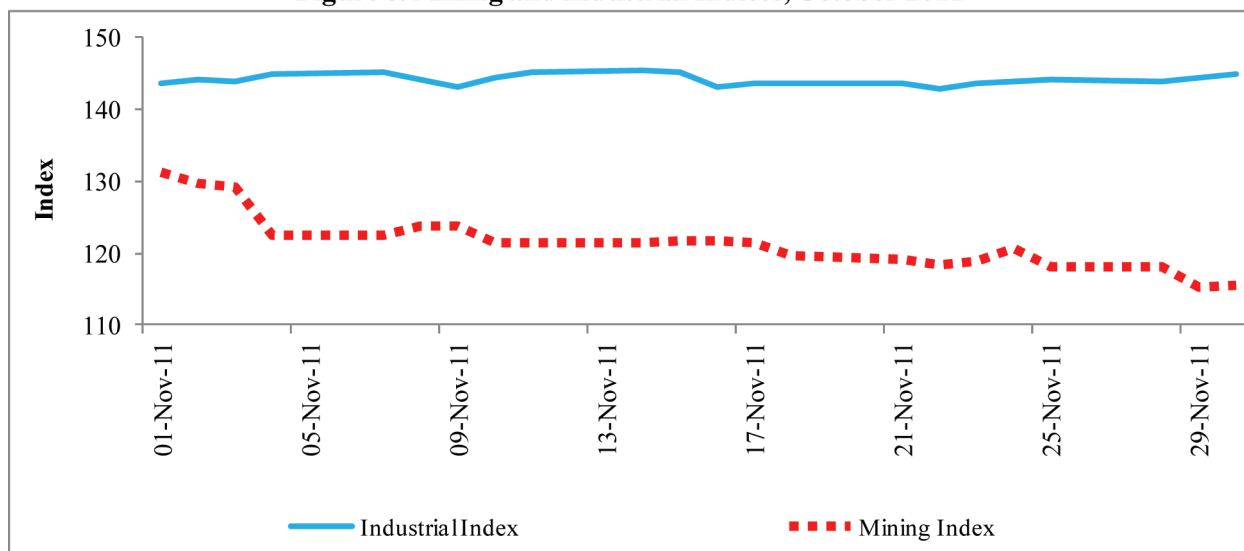
Wheat and maize prices dropped during the month of November 2011, despite the slight re-bounce in October (Table 7). The down-turn in prices can be partly attributed to bearishly perceived market fundamentals, as harvests neared completion in the northern hemisphere and work started South of the equator. For wheat, it is understood that currently, it is the second largest world wheat crop ever and coupled with ample carry-in stocks from last year (2010), have sharply boosted global availability in 2011/12¹. This pushes prices down despite the higher-than-normal increase in demand, whose increase is expected to be surpassed by supply (stocks) at the end of the season. For maize, higher production in North America (outside US) and Europe are expected to lift world maize production to a new record of 853 million tonnes. In addition, in the southern hemisphere, farmers in Argentina, Brazil and South Africa are set to plant more maize than in 2010/11. As such, future prices of maize are heavily pulled down. In the local market, maize prices remained stable as the planting season began.

The progression of the planting season in terms of rains and crop development will also determine the direction of prices of maize.

3. Stock Market Developments

The stock market continued on a subdued trend. There was little movement on the industrial index, which opened the month at 143.56, and closed marginally higher at 144.98. The mining index continued on a downward trend, falling from 131.23 in October to close at the lowest level to date for the year at 115.47 in November 2011 (Figure 6). As has been the case for the second half of the year can be attributed to the developments in the mining sector, wherein, there are growing fears as some of the mining houses, namely ZIMPLATS and Unki Platinum, are complying with the indigenization law while most are still get their indigenisation proposals approved by the government.

Figure 6. Mining and Industrial Indices, October 2011



Source: ZSE, November 2011

¹ International Grain Council, International Grain Report, November 2011

Market capitalization continued hovering at US\$3.6 billion in October 2011. This is despite some recoveries made by Seed-Co and Delta during the month due to increased seed demand as well as anticipated high demand for beverages as the festive season closes in. The country continued to experience net capital outflows, with a net outflow position of US\$1.1 million. This is a major shift from the US\$15 million surplus recorded in October 2011. Such volatility is an indication of uncertainties emanating from mixed signals in the market arising from discord on government policies and national elections. Foreigners are thus, cautious in trading in Zimbabwe stocks.

4. Corporate Sector Developments

As reflected in the 2011 Manufacturing Sector Survey by the Confederation of Zimbabwe Industries (CZI), there has been an upward trend in capacity utilisation in 2011, as it has increased from about 43.7 percent in 2010 to about 57.2 percent in 2011. Despite the recovery, the

manufacturing sector is still hamstrung by several challenges, one of which is the restrictive labour laws in Zimbabwe. The laws make it difficult for firms to streamline labour in line with productive capacity, thereby creating rigidities in the labour market which prevent companies from right-sizing their operations, due to the fear of difficulties in off-loading them when business slackens.

The 2012 National Budget Statement announced that the Government has established a special Task Force to do a comprehensive review of the labour legislation so as to make it flexible and consistent with business theory. In particular, the role of the Task Force would be to review retrenchment procedures, including the role of the arbitrator, maintain the balance between protecting the worker and ensuring business viability and guaranteeing that retrenchment packages are awarded in tandem with enterprises' capacity to pay. If successful, this could help improve firm performance. However, the success of the reforms would be hinged on legislative reforms, especially amendments to the existing labour laws and regulations.