Precious Metals

There was less volatility in gold and platinum prices during the month of May. The metal prices declined for the greater part of May before firming towards month end. The gold price softened from USD 1,473 per ounce as at 3 May to USD 1,373 before increasing to close the month at USD 1,438 per ounce (Table 1). The platinum price fell from USD 1,505 per ounce to USD 1,458 but rose to close the month at USD 1,463 per ounce.

Table 1: International Commodity Prices, April 2013

<table>
<thead>
<tr>
<th>Date</th>
<th>Gold (USD/oz.)</th>
<th>Platinum (USD/oz.)</th>
<th>Copper (USD/tonne)</th>
<th>Brent Crude Oil (USD/barrel)</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 May 2013</td>
<td>1,473</td>
<td>1,505</td>
<td>7,240</td>
<td>105</td>
</tr>
<tr>
<td>10 May 2013</td>
<td>1,438</td>
<td>1,496</td>
<td>7,295</td>
<td>102</td>
</tr>
<tr>
<td>17 May 2013</td>
<td>1,373</td>
<td>1,471</td>
<td>7,271</td>
<td>105</td>
</tr>
<tr>
<td>24 May 2013</td>
<td>1,388</td>
<td>1,458</td>
<td>7,254</td>
<td>102</td>
</tr>
<tr>
<td>30 May 2013</td>
<td>1,410</td>
<td>1,463</td>
<td>7,297</td>
<td>101</td>
</tr>
</tbody>
</table>

Source: Bloomberg and Reuters

The following were some of the factors that led to the decline in prices of precious metals in May 2013:

- The depreciation of the Indian rupee reduced demand for gold in India, which is among the leading importers of gold.
- The on-going recovery of the United States (US) equity markets, which is serving as an alternative investment for bullion.
- The decline in the growth of manufacturing sectors in China and Europe contributed to the decline in the platinum price.
- The European Central Bank and the Reserve Bank of Australia’s cash rate cuts early in the month, aimed at achieving sustainable economic growth and inflation targeting.
Further declines in prices of precious metals were avoided as a result of the improved demand for gold in China and the rise in global demand for jewelry, coins and bars. The Federal Open Market Committee’s pledge to maintain its low rates until mid-2015 also contributed.

In May 2013, copper prices were on an upward trend, increasing from USD 7,240 per tonne as at 3 May to close the month trading at USD 7,297 per tonne. The firming of the copper price has been a result of the increase in ore demand at refineries, following the enforcement of strict quality checks of scrap copper shipments at Chinese ports and also a slowdown in US recycling.

Brent Crude Oil

Brent crude oil price declined from USD 105 per barrel on May 3 to USD 102 per barrel before rising to USD 105 per barrel on May 17 and weakening further to close the month at USD 101 per barrel. The lower-than-expected demand data set the bearish tone for the Crude oil price for the month of May, despite several refiners having resumed operations after wrapping up spring maintenance. The slow global economic recovery, as reflected by weak manufacturing data from China and the lower-than-expected growth figures across the eurozone in the first quarter of 2013, had a bearing in the fall in demand. Moreover, the recurrent concerns about an early scale-back in the US Federal Reserve’s stimulus program elevated doubts over demand predictions. On the supply side, global inventories continued to increase, particularly in Europe and the US market, revealing the weak demand, despite the start of the summer driving season.

Maize and Wheat

The price of maize took a cyclical trend during the month before closing the month at USD 303 per tonne (Table 2). Attributed to excessively wet weather in the US and speculation of potentially lower yields, delays in planting helped strengthen the maize price at the end of the month. World maize output is forecast to rebound by 10 percent in the 2013/14 planting season, and demand is expected to increase by 6 percent, owing to increased feeds and industrial use.

The price of wheat took a downward trend for the greater part of the month, to close the month trading at USD 330 per tonne (Table 2). The decline in the price of wheat is due to the fact that global wheat availability is expected to be high over the year ahead. This is despite continued uncertainty about harvest prospects on the part of some major wheat producers.

Table 2: Maize and Wheat Prices (USA) Fob and Gulf, May 2013

<table>
<thead>
<tr>
<th>Date</th>
<th>Maize (USA), FOB, Gulf</th>
<th>Hard red wheat (USA), FOB, Gulf</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>USD/tonne</td>
<td>USD/tonne</td>
</tr>
<tr>
<td>3 May 2013</td>
<td>300</td>
<td>338</td>
</tr>
<tr>
<td>10 May 2013</td>
<td>304</td>
<td>331</td>
</tr>
<tr>
<td>17 May 2013</td>
<td>296</td>
<td>323</td>
</tr>
<tr>
<td>24 May 2013</td>
<td>298</td>
<td>327</td>
</tr>
<tr>
<td>30 May 2013</td>
<td>303</td>
<td>330</td>
</tr>
</tbody>
</table>

Source: International Grain Council

2. MACROECONOMIC DEVELOPMENTS

2.1 Economic Growth

The economy is expected to register a growth rate of 5 percent in 2013 and 2014 on the back of mining and agriculture. However, preliminary data on agriculture and manufacturing point to some downside risks to this projected growth. Initial results of the crop and livestock assessment have indicated reduced agricultural output for most crops, including maize, cotton, beans, and sorghum, among others. This has mainly been due to the erratic rainfall and a long dry spell during the 2012/13 rainy season. In addition, results of a survey conducted during the 2013 Zimbabwe International Trade Fair revealed that liquidity constraints, high utility costs as well as depressed...
demand continued to militate against performance of industries.

### 2.2 Agricultural Sector Developments

#### Tobacco

As at 31 May 2013, seasonal tobacco sales stood at 140 million kilograms with an average price of USD 3.70/kilogram. This compared to 111 million kilograms that was sold at an average price of USD 3.75/kilogram the same time last year. This season’s sales saw farmers raking in USD 520 million in revenue as compared to USD 415 million over the same period last year. Tobacco traded this season represents 82.6 percent of the targeted output of 170 million kilogram. According to the Tobacco Industry Marketing Board, the quality of the leaf has generally been good and is improving as the selling season progresses. This is evidenced by the rejection rate, which was 9.1 percent on 22 February 2013, a week after the selling season had commenced, and fell to 5.1 percent as at 31 May 2013.

#### Cotton

Farmers and ginners’ representatives met and agreed on the minimum prices for seed cotton (Table 3). The prices for this season are generally lower than those announced by the Agricultural Marketing Authority (AMA) in the last season. Despite the set prices in the 2011/12 marketing season, cotton merchants paid minimum prices that ranged from USD 0.35/kilogram to USD 0.40/kilogram. Farmers initially resisted the set prices but eventually gave in and delivered their seed cotton. The price that had been set by the AMA was equivalent to the cost of producing the seed cotton. A lower market price therefore meant cotton farming was not viable. In the 2010/11 marketing season, farmers had received a minimum price of USD 0.85/kilogram. The fall in price was attributed to the fall in the lint price on the international market.

#### Maize

The maize marketing season started on 1 April 2013. Government set a new interim price of maize at USD 310/metric tonne (mt), up from USD 295/mt in the last marketing season. Government is yet to decide on the final price, which will be higher than the interim price. Farmers, however, expressed concern that the set price was too low and could not guarantee viability of their business. The farmers were of the view that the producer price must be set at USD 400/mt. As at 16 May 2013, the Grain Marketing Board’s (GMB) producer price was much lower than prices offered by other buyers such as Staywell, National Foods, FSG and Parogate, which ranged between USD 320/mt and USD 370/mt. The low interim price is likely to force farmers to either hold onto their stocks while waiting for the announcement of the final price or sell it to the private players. Payment for farmers from private buyers takes about a week while payments from the GMB take much longer. The delay in GMB payments discourages farmers from delivering their maize to GMB depots. This in turn compromises the GMB’s capacity to accumulate grain reserves. Over the years, low prices and delays in GMB payments have generally led to farmers focusing on the production of other viable cash crop such as tobacco at the expense of maize.

The Government of Zimbabwe has entered into an agreement with Zambia to import 150 000 mt of maize in order to meet domestic demand owing to poor harvests in most parts of the country. The resuscitation of an agriculture exchange market will offer an efficient platform where prices will

<table>
<thead>
<tr>
<th>Table 3: Minimum Seed Cotton Prices for the 2012/13 and 2011/12 marketing seasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grade</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>A</td>
</tr>
<tr>
<td>B</td>
</tr>
<tr>
<td>C</td>
</tr>
<tr>
<td>D</td>
</tr>
</tbody>
</table>

Source: AMA
be determined more efficiently. Selling through the commodity exchange is expected to ensure quick payment. The Government of Zimbabwe has so far disbursed USD 500,000 towards the operationalization of the commodity exchange.

**Wheat**

The 2013 wheat production target was set at 160,000 tonnes. However, by end of May 2013, only about 2,000 hectares had been planted, compared to about 4,000 that had been planted over the same period in the last season. This was due to inadequate Government input support. Wheat farmers are not receiving any input support from millers and bakers, as the Government did not gazette a statutory instrument that would protect them from side marketing. Since 2007/08, wheat production has been very low.

**Figure 1: Wheat Production**

![Wheat Production Chart](chart1.png)

*Sources: AMA (2012) and Zimbabwe Agricultural Sector Statistical Report*

Low wheat output has largely resulted from low yields. For example, only 3,000 kilogram/hectare was harvested in the 2011/12 season, compared to 5,400 kilogram/hectare in the 1999/00 season. Arable land allocated for wheat production dropped from 42,500 hectares in the 1999/200 season to only 8,000 hectares in the 2011/2012 season. Zimbabwe has, therefore, largely relied on imports to meet the annual national requirement of 450,000 tonnes.

**Figure 2: Gold Deliveries from May 2012 to May 2013**

![Gold Deliveries Chart](chart2.png)

*Source: Fidelity Printers and Refineries*
2.3 Mining Sector Developments

Gold

On a month-on-month basis, total gold deliveries for May 2013 grew by 4.6 percent from 1,081.93 kilograms in April 2013 to 1,131.27 kilograms in May 2013 (Figure 2). Gold deliveries by primary producers grew by 0.24 percent to 919.61 kilograms from 917.38 kilogram, while gold deliveries by small-scale producers grew by 28.6 percent to 211.66 kilograms in May 2013 from 164.55 kilograms in April 2013.

On a year-on-year basis, total gold deliveries grew by 5.18 percent from 1,075.53 kilograms in May 2012 to 1,131.27 kilograms in May 2013. Primary producers’ deliveries also grew by 4.04 percent from 883.85 kilograms in May 2012 to 919.61 kilograms in May 2013, while small-scale producers’ deliveries grew by 10.42 percent from 191.68 kilograms in May 2012 to 211.66 kilograms in May 2013.

Other Mining Sector Developments

Draft Mineral Policy

The Draft Mineral Policy, which the Ministry of Mines and Mining Development introduced, seeks to increase state participation in exploration, mining and selling of minerals. Under the new proposal, gold and platinum will be sold through state-appointed authorized dealers. Other minerals will be sold via the Minerals Marketing Corporation of Zimbabwe. There are also considerations on regulating the amount of coal and iron ore to be mined, as well as setting prices to these strategic minerals for the local market. However, in as much as regulation is important, market forces need to be left to determine the price level, so as to improve efficiency.

2.4 Inflation Developments

Annual inflation declined from 4.02 percent in May 2012 to 2.20 percent in May 2013 (Figure 3). In May 2013, annual food and non-alcoholic beverages and non-food inflation stood at 3.54 percent and 1.54 percent, respectively. Factors underpinning the decline in annual inflation in May 2013 include communications (-13.13 percent); maintenance and repairs of dwellings (-4.84 percent); non-alcoholic beverages (-3.35 percent); electricity, gas and other fuels (-1.42 percent), and clothing and footwear (-0.38 percent). On the other hand, factors that exerted upward pressure on annual inflation included rental for housing (22.36 percent), education (12.56 percent) and tobacco (9.28 percent).

Figure 3: Inflation Developments in May 2013

Month-on-month inflation for May 2013 declined further from -0.07 percent in April 2013 to -0.21 percent in May 2013. Thus, month-on-month food and non-alcoholic beverages and non-food inflation stood at -0.28 percent and -0.17 percent, respectively. The decline in prices of transport (-0.73 percent), non-alcoholic beverages (-0.69 percent), household maintenance (-0.65 percent) and recreation and culture (-0.49 percent) underpinned the decline in month-on-month inflation in May 2013.
The impact of the United States dollar (USD)/South African rand (ZAR) exchange rate depreciation in May 2013, which saw the exchange rate declining close to USD/ZAR10 is yet to filter into the economy. Since South Africa is a major source of Zimbabwe’s consumable goods, the depreciation may have an effect on prices of consumer goods.

2.5 Interest Rate Developments

Commercial bank weighted average lending rates for individuals increased from 14.32 percent in March 2013 to 14.58 percent in April 2013. However, commercial bank weighted average lending rates for corporate and merchant banks softened from 10.19 to 9.66 percent and 17.80 to 17.77 percent, respectively, over the same period. Merchant bank weighted average lending rates for corporates remained unchanged at their March 2013 level of 14.35 percent.

### Table 4: Interest Rate Levels (Annual Percentages)

<table>
<thead>
<tr>
<th>End Period</th>
<th>Commercial bank lending rates</th>
<th>Merchant bank lending rates</th>
<th>3-Month deposit rate</th>
<th>Savings deposit rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Nominal rate</td>
<td>Weighted average rate</td>
<td>Nominal rate</td>
<td>Weighted average rate</td>
</tr>
<tr>
<td></td>
<td>Individuals</td>
<td>Corporates</td>
<td>Individuals</td>
<td>Corporates</td>
</tr>
<tr>
<td>Mar-12</td>
<td>8.00-30.00</td>
<td>16.04</td>
<td>12.53</td>
<td>14.00-35.00</td>
</tr>
<tr>
<td>Apr-12</td>
<td>8.00-30.00</td>
<td>15.00</td>
<td>13.06</td>
<td>13.00-25.00</td>
</tr>
<tr>
<td>May-12</td>
<td>6.00-30.00</td>
<td>14.98</td>
<td>11.86</td>
<td>15.00-30.00</td>
</tr>
<tr>
<td>Jun-12</td>
<td>6.00-35.00</td>
<td>13.81</td>
<td>11.58</td>
<td>15.00-30.00</td>
</tr>
<tr>
<td>Jul-12</td>
<td>6.00-35.00</td>
<td>14.32</td>
<td>10.88</td>
<td>15.00-30.00</td>
</tr>
<tr>
<td>Aug-12</td>
<td>6.00-35.00</td>
<td>15.65</td>
<td>10.74</td>
<td>15.00-30.00</td>
</tr>
<tr>
<td>Sep-12</td>
<td>6.00-35.00</td>
<td>13.25</td>
<td>11.14</td>
<td>15.00-30.00</td>
</tr>
<tr>
<td>Oct-12</td>
<td>6.00-35.00</td>
<td>13.35</td>
<td>11.03</td>
<td>13.00-30.00</td>
</tr>
<tr>
<td>Nov-12</td>
<td>6.00-35.00</td>
<td>15.25</td>
<td>10.88</td>
<td>13.00-25.00</td>
</tr>
<tr>
<td>Dec-12</td>
<td>10.00-35.00</td>
<td>15.08</td>
<td>10.40</td>
<td>15.00-25.00</td>
</tr>
<tr>
<td>Jan-13</td>
<td>10.00-35.00</td>
<td>15.58</td>
<td>10.81</td>
<td>13.00-25.00</td>
</tr>
<tr>
<td>Feb-13</td>
<td>10.00-35.00</td>
<td>14.83</td>
<td>10.53</td>
<td>13.00-25.00</td>
</tr>
<tr>
<td>Mar-13</td>
<td>6.00-35.00</td>
<td>14.32</td>
<td>10.19</td>
<td>14.00-25.00</td>
</tr>
<tr>
<td>Apr-13</td>
<td>3.00-35.00</td>
<td>14.58</td>
<td>9.66</td>
<td>14.00-25.00</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>14.72</strong></td>
<td><strong>11.09</strong></td>
<td></td>
<td><strong>17.81</strong></td>
</tr>
</tbody>
</table>

*Source: RBZ Monthly Economic Review*

In general, there has not been a significant change in terms of a reduction in lending rates and an increase in deposit and savings rates, as was expected since the signing of the memorandum of understanding between the Reserve Bank of Zimbabwe (RBZ) and banking institutions. The operating environment is still tough for most banks, particularly those with fragile balance sheets. In addition, uncertainty surrounding national elections, among other factors, resulted in some banks actually cutting down on loans and advances. Both banks and depositors were not willing to make long-term commitments. There was a wait-and-see-attitude in the financial markets, just like in most other sectors of the economy.

2.6 Banking Sector and Monetary Developments

Annual growth in broad money supply (M3) – defined as total banking sector deposits, net of inter-bank deposits – declined from 32.8 percent in April 2012 to 14.9 percent in April 2013 (Figure 4). On a month-on-month basis, M3 increased from -0.4 percent in March 2013 to 4.4 percent in April 2013. Growth in demand and short-term and savings deposits underpinned the increase.
In April 2013, annual total banking sector deposits increased to USD 3.97 billion from USD 3.45 billion in April 2012 (Figure 5). On a month-on-month basis, total banking sector deposits for April 2013 increased from USD 3.80 billion in March 2013 to USD 3.97 billion.

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

<table>
<thead>
<tr>
<th>Type of deposit</th>
<th>February 2013</th>
<th>March 2013</th>
<th>April 2013</th>
<th>Monthly increase (absolute) USD billion</th>
<th>Monthly increase (percent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand deposits</td>
<td>1.98</td>
<td>1.97</td>
<td>2.09</td>
<td>0.12</td>
<td>6.19</td>
</tr>
<tr>
<td>Saving and short-term deposits</td>
<td>1.27</td>
<td>1.31</td>
<td>1.35</td>
<td>0.05</td>
<td>3.57</td>
</tr>
<tr>
<td>Long-term deposits</td>
<td>0.57</td>
<td>0.53</td>
<td>0.53</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Total deposits</td>
<td>3.81</td>
<td>3.80</td>
<td>3.97</td>
<td>0.17</td>
<td>4.4</td>
</tr>
</tbody>
</table>
The increase in total bank deposits in April 2013 is attributed to the increase in demand deposits by 6.19 percent and savings and short-term deposits by 3.57 percent (Table 5). Long-term deposits remained unchanged at USD 0.53 billion. Uncertainty surrounding the economic environment post elections could partially explain this state of affairs. Depositors are currently not willing to make long-term commitments.

As at April 2013, the composition of total bank deposits was as follows (Figure 6): demand deposits (52.6 percent), savings and short-term deposits (34.1 percent) and long-term deposits (13.3 percent).

**Figure 6: Composition of Total Banking Sector Deposits in April 2013**

![Composition of Total Banking Sector Deposits in April 2013](Source: RBZ Monthly Economic Review, April 2013)

The bank-loan-to-deposit ratio, calculated on the basis of total bank deposits as well as external and domestic sources of funding, declined from 95.3 percent in March 2013 to 90.0 percent in April 2013 (Figure 7).

**Figure 7: Loan-to-Deposit Ratio**

![Loan-to-Deposit Ratio](Source: RBZ Monthly Economic Review)
The loan-to-deposit ratio declined despite the increase in the deposit base. There was a slowdown in bank lending. This could be attributed to uncertainty during the elections period, among other factors.

As of April 2013, bank credit to the private sector was distributed as follows (Figure 8): loans and advances (84.2 percent), mortgages (8.2 percent), bills discounted (3.4 percent), bankers’ acceptances (1.1 percent) and other investments (3.1 percent).

**Figure 8: Distribution of Bank Credit to the Private Sector in April 2013**

Loans and advances, which are the largest proportion of bank credit to the private sector, were utilized as follows (Figure 8): raw materials (36.6 percent), other recurrent expenditures (30.7 percent), capital expenditure (18.7 percent), consumer durables (12.0 percent) and trade finance (2.0 percent). Most of the loans and advances were utilized for production purposes, which is commendable for economic growth.

The distribution of bank loans and advances to the private sector was as follows (Figure 9): individuals (18.5 percent), manufacturing (17.3 percent), agriculture (17.4 percent), distribution (16.5 percent), services (12.6 percent), other sectors (10.1 percent) and mining (7.5 percent).

**Figure 9: Sectorial Distribution of Banking Sector Loans and Advances in April 2013**

Source: RBZ Monthly Economic Review
The share of loans and advances outstanding to individuals has surpassed the share outstanding to productive sectors of the economy. In the current environment, loans and advances to individuals are not only used for consumption purposes but also in small productive activities, which is critical in a recovering economy in which the small-scale sector has displayed potential for faster growth.

2.7 Other Financial Sector Developments

On 7 May 2013, the Microfinance Bill went for its second reading in parliament. Seeking to modernize current legislation, which is outdated and no longer in line with local developments and international best practice, the Bill aims to come up with a one-stop legislative instrument for microfinance institutions (MFIs) that will, among other things:

- define microfinance;
- categorize different microfinance activities (e.g. deposit taking and non-deposit-taking MFIs); and
- provide for licensing and registration of MFIs, minimum capital and entry requirements, supervision and regulatory frameworks.

The bill seeks to deal with money lending institutions’ and MFIs’ unethical practices, which include, among others:

- charging extremely high interest rates of, for example, 50 percent per month, which compares unfavorably with maximum rates of 35 percent per annum that some banks were charging;
- using abusive and unruly debt collection and recovery methods;
- disposing of client assets without following proper legal channels;
- inadequately disclosing business conditions; and
- failing to follow international best practice, including the Core Client Protection Principles.

There have been reports of irresponsible lending, where and MFIs and other money lending concerns lend beyond customers’ net salary or ability to repay. This has resulted in the perpetual indebtedness of customers, since salaries or income streams are wiped out when the outstanding loans are amortized. As a result, most borrowers end up in a debt trap, further worsening their weak financial standing.

Some money lending concerns and MFIs were illegally taking deposits from the public, while others were operating without formal registration. The amendments to be introduced in the Bill are commendable, since they are likely to boost customer and investor confidence in MFIs by strengthening the regulatory and supervisory framework and aligning the current legislation to international best practice.

It is important to note that a sizable and growing number of people in Zimbabwe rely on MFIs for funds, despite their malpractices. Some of the reasons for increased borrowing from MFIs include:

- low average wages and salaries,
- failure to meet bank loan assessment requirements, such as acceptable collateral,
- the speed at which MFI loans are approved, and
- the possibility offered by MFIs of borrowing small amounts.

The Reserve Bank of Zimbabwe has extended the deadline for banks to meet the minimum capital requirement of USD 50 million that was scheduled for 30 June 2013. The new deadline is still to be announced. This development is favorable, given the difficult macroeconomic operating environment facing banks. It is not easy to mobilize funding, particularly for weak banks.

2.8 Fiscal Developments

Revenues Outturn

For April 2013, Government revenue outturn fell by 15.85 percent from USD 314.00 million in March 2013 to USD 271.04 million. This was mainly on account of a decline in corporate tax inflows, which dropped from USD 57.80 million in March to USD 19.95 million in April. The cumulative revenue total to April 2013 amounted to USD 1.1 billion (Figure 10).
Expenditure Outturn

At USD 246.22 million, expenditures for April 2013 were contained within the month’s revenue outturn, hence the surplus of USD 24.82 million. However, against cumulative expenditures of USD 1.1 billion, the cumulative Government balance remained in the negative at USD 63.06 million.

As has been the trend in the multiple currency environment, the expenditure mix remains highly consumptive with recurrent expenditures accounting for 94.76 percent of the cumulative total expenditures at USD 1,051 billion, while the capital budget accounted for the remainder, at USD 59.92 million. Addressing this skewed expenditure mix could help support Government growth objectives. This could be achieved through, among other things, reforming the public service by making it leaner and more efficient, thereby reducing employment costs. Cumulative employment costs to April 2013 amounted to USD 722.11 million, accounting for 65.11 percent of total expenditures and 68.71 percent of the recurrent budget.

2.9 External Sector Developments

Trade Deficit

On a year-on-year basis, the trade deficit in Zimbabwe increased to USD 753.6 million in April 2013, from USD 217.8 million in April 2012 (Figure 11). On a month-on-month basis, the trade deficit escalated to USD 753.6 million in April 2013, from USD 278.7 million in March 2013.

The trade deficit in April 2013 emanated from the huge increase in fertilizer imports, specifically the “other fertilizer” imports of which increased from USD 2.6 million in March 2013 to USD 444.7 million in April 2013. On a year-on-year basis, the importation of the same fertilizer increased from USD 2.1 million in April 2012 to USD 444.7 million in April 2013.

The high level of fertilizer imports in April 2013 resulted from factors that include, among others:

• peak of the winter wheat planting season,
• preparations for the next agricultural season, and
• the fact that most farmers currently have cash after selling tobacco and are therefore able to buy farm inputs.

In addition, in terms of logistics, transport is readily available, as the tobacco-selling season is still on. Given that fertilizer is an essential input in farming, high import levels could raise expectations of more agricultural output in the next season, all other factors remaining constant.

Other External Sector Developments

Between 6 and 7 June 2013, the European Union (EU) delegation to Zimbabwe organized a seminar in Harare aimed at capacitating businesses with knowledge of exporting to the EU. The meeting was intended to introduce Zimbabwean firms to the EU Export Helpdesk, a free online one-stop-
shop that explains the procedures and requirements for all exports into the EU. The interim Economic Partnership Agreement (EPA) with the EU, signed by four Southern Africa countries (Madagascar, Mauritius, Seychelles and Zimbabwe) in August 2009 and which came into force in May 2012, was the main driver for the workshop. Under the interim EPA, Zimbabwean firms can enjoy duty and quota free export into the EU for all products.

One of the topical issues in Zimbabwe at the moment is the reduction of the gap between exports and imports, which contributes negatively to the balance of payments. Boosting exports by taking advantage of the EPA could help in this quest. A look at the statistics for 2012 from the Zimbabwe National Statistics Agency (ZIMSTAT) reveals that about 21 percent of the imports, constituting about USD 1.6 billion, came from the EU countries in 2012 while exports into the EU were only about 3 percent of the total exports (equivalent to about USD 113 million). This shows that there is a very high trade imbalance in the EU’s favor, which can be reduced through increased exports.

**Figure 11: Exports and imports growth rate trends, Zimbabwe and the EU, 2003-2012**

![Exports and imports growth rate trends, Zimbabwe and the EU, 2003-2012](source)

The need to take advantage of the EPA stems from three main factors. First, the EPA gives Zimbabwean firms an opportunity to explore a the large EU market, which constitutes about 7 percent of the world population and generates about 25 percent of the world’s gross domestic product. Secondly, only four countries signed the EPA, which gives them an advantage, specifically over South Africa, which dominates the regional market. This advantage is particularly helpful since Zimbabwean firms are still struggling to remain competitive in the global market. On a level playing field, Zimbabwe’s chances of successfully securing export contracts would be slim, given South Africa’s regional market dominance. Thirdly, exports into the EU could also include value added and finished products, which would still attract no duty. This can be an opportunity to enhance value addition, especially in the clothing and textile industry, in which the country historically had some comparative advantage.

For this to be realized, however, there are a lot of challenges with which Zimbabwean firms have to be able to deal. First, EU standard specification might be different from those to which Zimbabwe currently adheres, which might call for investment into new specifications. These standards could also amount to significant barriers to trade with the EU, which would have to be overcome. Secondly, the EU has also negotiated with other countries, such as Colombia and Singapore, which are more competitive than Zimbabwean firms. This
implies that Zimbabwean firms should also invest in competitive production. This is also important since the EU is currently negotiating similar arrangements with countries including Malaysia, Thailand, Indonesia, the Philippines and India; these countries likely have competitive advantages over Zimbabwean firms in several product lines. Thus, if the opportunity is to be seized, this has to be done urgently – before competition becomes unbearably stiff.

Thus, while the EU market represents opportunities that are ready to be grabbed, some challenges still exist; these need to be overcome in order for local companies to secure the EU market. These challenges were raised with the business community during the conference. Local role-players have also not sufficiently exploited Zimbabwe’s unique natural endowments as of yet; these could enable a competitive production edge over companies from other countries, including those that are yet to sign the EPA and those that have already signed or will do so in the near future to enjoy duty-free entry of products into the EU.

**2.10 Tourism Developments**

The 2012 tourism report, released by the Zimbabwe Tourism Authority, reveals that there was an improvement in the performance of the tourism sector in terms of revenue generation. Tourism receipts registered an increase of 13 percent to reach a record high of USD 749 million. This increase was largely attributable to improved expenditure patterns by tourists who visited the country. However, the sector recorded a decline of 26 percent in foreign arrivals in 2012. The distribution in the number of tourist arrivals was as follows: Africa (87 percent), Europe (6 percent), the US (3 percent), Asia (2 percent), Oceania (1.2 percent) and the Middle East (1 percent). Table 6 shows the distribution of tourist arrivals according to purpose of visit.

The average hotel room and bed occupancy rates remained static at 52 percent and 37 percent, respectively. Lodges fared better, registering an increase in room occupancy from 35 percent in 2011 to 51 percent in 2012. The tourism sector witnessed some progress in attracting domestic tourists, as witnessed by increased participation of locals, whose contribution to hotel and lodge occupancy increased by 1 percent and 4 percent, respectively. This increase is attributable to an increase in conference tourism with events being organized by various Government departments and non-governmental and private organizations.

### Table 6: Purpose of Visits

<table>
<thead>
<tr>
<th>Purpose of Visit</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business</td>
<td>348,996</td>
<td>371,944</td>
</tr>
<tr>
<td>Education</td>
<td>19,748</td>
<td>44,894</td>
</tr>
<tr>
<td>Shopping</td>
<td>128,378</td>
<td>76,166</td>
</tr>
<tr>
<td>*Holiday</td>
<td>1,244,441</td>
<td>1,892,868</td>
</tr>
<tr>
<td>Others</td>
<td>52,667</td>
<td>37,408</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,794,230</strong></td>
<td><strong>2,423,280</strong></td>
</tr>
</tbody>
</table>

*Source: Tourism 2012 Annual Report*

The total national parks arrivals increased from 307,917 in 2011 to 493,327 in 2012. Of these total arrivals, 54 percent were locals and 46 percent were foreigners. This shows the domestic tourism market’s improved participation.

**World Travel and Tourism Competitiveness Index**

The World Travel and Tourism Competitiveness Index, published by the World Economic Forum, shows that Zimbabwe has marginally improved. The index measures the factors and policies that

* This includes visitors who came for holiday and those who came to visit friends and relatives, mostly from within the region.
make it attractive to develop the travel and tourism sector in different countries. Overall, Zimbabwe has improved slightly, moving from 119th in 2011 to 118th in 2013 out of 140 countries.

**Figure 12: Top Ten Parks and Wildlife Arrivals**

![Top Ten Parks and Wildlife Arrivals graph]

Source: Tourism 2012 Annual Report

The country has managed to achieve the following rankings in different sub-indices (Table 7): environmental sustainability (60); policy rules and regulations (138); business environment and infrastructure (116); and human, cultural and natural resources (101).

**Table 7: Zimbabwe’s Travel and Tourism (T&T) Rankings**

<table>
<thead>
<tr>
<th>Year</th>
<th>T&amp;T world ranks (out of 140)</th>
<th>T&amp;T Sub-Saharan Africa ranks (out of 31)</th>
<th>Score (1-7)</th>
<th>T&amp;T regulatory framework</th>
<th>Business environment and infrastructure</th>
<th>T&amp;T human, cultural and natural resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>118</td>
<td>15</td>
<td>3.3</td>
<td>117</td>
<td>116</td>
<td>101</td>
</tr>
<tr>
<td>2011</td>
<td>119</td>
<td>15</td>
<td>3.3</td>
<td>118</td>
<td>120</td>
<td>96</td>
</tr>
<tr>
<td>2009</td>
<td>121</td>
<td>30*</td>
<td>3.2</td>
<td>125</td>
<td>125</td>
<td>109</td>
</tr>
</tbody>
</table>

Source: Travel and Tourism Competitiveness 2013 Report

Almost all facets of the travel and tourism industry can be improved. Improvements will include reviewing the current policy rules and regulations affecting the sector; the business environment in its entirety; and human, cultural and natural resource management.

3. **STOCK MARKET DEVELOPMENTS**

The industrial index opened May 2013 at 189.4, gaining 12.13 percentage points, and closed the month at 212.38. The mining index started the month at 71.09 and closed at 86.51, gaining 4.08 percentage points (Figure 13). The decline in short-
term money market rates in May 2013 was the main buoy of the performance of the industrial index, and local investors duly shifted their investments to the stock market.

**Figure 13: Industrial and Mining Indices for May 2012 and May 2013**

![Graph showing industrial and mining indices for May 2012 and May 2013]

The industrial index performed well in May 2013, averaging 205.74, as compared to an average performance of 131.24 in May 2012 (Figure 15). Despite the mining index’s marginal gains in May 2013, it failed to surpass its performance of May 2012, averaging 73.71 points compared to an average of 86.51 points in the comparable period last year.

A year-on-year analysis reveals that activity at the stock market declined in May 2013, as compared to May 2012, with turnover value and volume declining by 14.55 percent and 72.47 percent, respectively (Table 8). The decline in activity on the stock market can be attributed to the anxiety regarding the national elections. Foreign participation, as indicated by the number of shares bought and sold by foreigners, declined by 20.9 percent and 87.54 percent, respectively.

**Table 8: Summary of ZSE Statistics, May 2012 and May 2013**

<table>
<thead>
<tr>
<th></th>
<th>May-12</th>
<th>May-13</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover value (USD)</td>
<td>41,555,728.25</td>
<td>35,510,656.82</td>
<td>-14.55</td>
</tr>
<tr>
<td>Turnover volume</td>
<td>524,679,024</td>
<td>144,443,884</td>
<td>-72.47</td>
</tr>
<tr>
<td>Foreign bought (USD)</td>
<td>21,126,697.40</td>
<td>17,677,956.97</td>
<td>-16.32</td>
</tr>
<tr>
<td>Foreign sold (USD)</td>
<td>15,237,746.92</td>
<td>5,259,469.55</td>
<td>-65.48</td>
</tr>
<tr>
<td>No of shares bought by foreigners</td>
<td>45,698,530</td>
<td>36,145,556</td>
<td>-20.9</td>
</tr>
<tr>
<td>No of shares sold by foreigners</td>
<td>123,519,983</td>
<td>15,393,122</td>
<td>-87.54</td>
</tr>
<tr>
<td>Market capitalization (USD)</td>
<td>3,351,215,680</td>
<td>5,471,219,366</td>
<td>63.26</td>
</tr>
</tbody>
</table>

*Source: ZSE, 2013*
Despite the decline in stock market activity, market capitalization grew by 63.26 percent, from USD 3.35 billion in May 2012 to USD 5.47 billion in May 2013. Share turnover velocity (ratio of turnover value to market capitalization) declined to 0.64 percent, from 1.24 percent in May 2012, indicating that the increase in market capitalization has been as a result of the increase in the price of shares rather than the increase in the volume of listed stocks. However, market indications are that the stock market capitalization is expected to break through the USD 6 billion mark before in 2013.

Meanwhile, the boards of ZB Financial Holdings and Delta Corporation declared dividends of 0.34 cents and 2.23 cents per share, respectively. Thus, as at 31 May 2013, both counters traded at higher prices – 11 cents and 146.01 cents per share, respectively. On the other hand, on 27 May 2013, the Trust Holdings board of directors applied for voluntary suspension from the stock market, citing material impact on its going concern status. The Zimbabwean Stock Exchange acceded to Trust Holdings’ request and subsequently suspended the firm’s share from trading with effect from 31 May 2013. With a share issue of 357,891,256, Trust Holdings traded at 0.8 cents per share on its last day of trading.

4. CORPORATE SECTOR DEVELOPMENTS

Market indications are that stakeholders in the corporate sector continue to raise concerns over the low uptake of funds under the Distressed Industries and Marginalized Area Fund (DIMAF). While some of the distressed industries in Bulawayo and Mutare are aware of the facility, many of them seem to have given up any hope of getting access to it. Banks also face challenges as they try to disburse funding to distressed companies. There are two main reasons for this development.

First, the funds are channeled out through the Central African Building Society (CABS), which has to conduct its own creditworthiness tests before lending out the money. Although the facility is intended for distressed firms, such firms also have to demonstrate that they are creditworthy and their proposals are bankable. Firms with weak balance sheets, unviable proposals and low prospects for recovery generally fail the due diligence test. Some of the firms are using obsolete production machinery, which adds to costs of production, thus making the end products uncompetitive. This undermines the prospects of such companies to secure credit, especially working capital.

Secondly, most of the distressed companies are already highly indebted. Even under DIMAF, a successful fresh loan application would see banks trying to recover their debt by tapping into the funds. Thus, there is always a risk that the loan would end up being used to repay old debt rather than finding its way into the production process. This is particularly true for companies that had to undergo judicial management due to pressure from creditors. Thus, CABS would naturally first want to engage with banks that are owed money to understand their plans before extending new loans to any distressed company. Such banks might also want priority when it comes to repayment, which might not be considered favorable to CABS. Consequently, such discussions between the banks may fail to produce a result in favor of the companies.

This implies that the low uptake of funds is likely to continue as long as banks remain the preferred disbursement mechanism.

5. ECONOMIC GOVERNANCE ISSUES

International Monetary Fund Staff-Monitored Program

On 7 June 2013, the Government of Zimbabwe reached an agreement with the International Monetary Fund (IMF) on a staff-monitored program (SMP). This is a significant step towards the normalization of Zimbabwe’s relations with the IMF and other creditors who rely on the IMF stamp of approval.

Under the SMP – which runs for nine months, from April to December 2013 – IMF staff work with authorities on Zimbabwe’s key macroeconomic challenges. The main objectives of the SMP are to:

- strengthen fiscal sustainability by ensuring expenditure is kept in line with fiscal revenues;
- increase investment in infrastructure and priority social spending;
- clear outstanding domestic arrears;
- rebuild international reserves;
• increase financial sector stability through reforms and the tightening of the regulatory and supervisory framework;
• advance the structural reform agenda, including public finance management, tax policy and revenue administration; and
• increase transparency in mining, particularly in diamond revenues.

The SMP for Zimbabwe is an indication of the significant improvement in the country’s cooperation on economic policies and its commitment to address its arrears problems. Implementation of the SMP should help establish a track record of sound policies and is an important stepping-stone towards arrears clearance and an IMF-supported debt relief program. Debt relief should help free resources from debt service to support the underfunded public sector investment program. Furthermore, an SMP is key to unlocking new finance to complement the low fiscal revenues in support of growth enhancing investments.

Economic Growth and Development

The Economic Commission for Africa and the African Union’s 2013 Economic Report on Africa reveals that there is an opportunity for African countries to promote economic transformation and to address poverty, inequality and youth unemployment. The impressive growth across the continent has not translated into economic diversification, commensurate jobs or broad-based economic and social development. The continent continues to suffer from high unemployment, particularly for among its youth and female populations, with too few opportunities to absorb new labor market entrants.

Most African economies still depend heavily on commodity production and exports despite diversifying into non-primary commodity sectors such as manufacturing and services. There are still limited forward and backward linkages to other sectors of the economy. Major deficits in state and institutional capacities and in physical and policy infrastructure as well as an inability to mitigate the impacts of external shocks have contributed to the continent’s “transformation challenge”.

African countries are not capitalizing fully on their resource endowments and high international commodity prices. The report underscores the need to:

• beneficiate primary commodities before exporting them;
• develop appropriate local content policies and boost infrastructure, human skills and technological capabilities; and
• foster regional integration and intra-African trade.

Emphasis on the implementation of the Continental Free Trade Area and the regional and continental priorities of the Accelerated Industrial Development of Africa (AIDA)’s action plan, for example, will be crucial.

The Zimbabwean economy did not benefit much from the commodity boom since it coincided with the economic crisis, which resulted in a distorted exchange rate system and the RBZ’s stiff foreign currency surrender requirements at an exchange rate that was far below the market value. The deterioration of infrastructure (rail, roads and electricity) due to very limited fiscal space also increased exporters’ cost of production, making them unable to compete on the international market. This resulted in overreliance on primary commodity exports with very little growth in manufactured exports.

The adoption of the multi-currency regime in February 2009 stabilized the economy, and exporters took advantage of the removal of forced foreign exchange surrender requirements and full retention of market proceeds. Out of 10 top performers in Africa between 2008 and 2012, Zimbabwe was ranked seventh.