1. International Commodity Price Developments

Metal prices changed direction several times throughout the year but ended 2011 weaker, except for gold. From 4 January 2011 to 30 December 2011, gold firmed by 13%, platinum, copper and nickel declined by 22%, 22% and 27%, respectively, over the same period. During 2011, prices responded positively (firmed) to the weakening US dollar as investors looked for safe haven for their cash.

For the month of December 2011, prices for gold, platinum and copper fell by 10%, 11% and 3%, respectively while nickel prices firmed by 8%. The on-going uncertainty vis-à-vis the potential outcome of the current European debt crisis continues to affect commodities and foreign exchange markets.

Brent Crude oil gained by 15% in 2011 as prices increased from US$93.40/barrel in January to US$107.09/barrel in December 2011. During the year, various factors such as a weak global economy, a strong US dollar and the easing of tensions in the Middle-East led to the fluctuation of oil prices, especially in the first half of the year. However, the sanctions on Iran helped push oil prices up over November 2011.

Firming international oil prices continue to exert pressure on local fuel prices in oil importing countries such as Zimbabwe. In the local market, retail fuel prices responded to increases in international prices during the last quarter of 2010. Diesel prices increased from an average of US$1.07/litre in November 2010 to its peak of US$1.35/litre in January and February 2011. Petrol peaked to an average of US$1.45/litre from US$1.20/litre over the same period. However, through-out the year, fuel prices were stable. Prices slightly dropped from the peak attained during the beginning of the year and averaged around US$1.22-US$1.30/litre for diesel and US$1.36- US$1.44/ litre for petrol for the greater part of 2011. The coming on the market of ethanol blended petrol in October 2011, pressured petrol prices to fall by an average of 2USc per litre. The local fuel prices remained stable during the December 2011 period.
2. Macroeconomic Developments

2.1 Overview of the Economy

The economy is still on a positive growth path. The economy grew by 5.7% in 2009, 8.1% in 2010 and is estimated to grow by 9.3% in 2011. It is projected to grow by 9.4% in 2012. However, despite these positive growth prospects, some challenges still persist in the economy. These challenges include, among others, uncertainty surrounding national elections in 2012, mixed reactions on the implementation of the indigenisation and economic
empowerment laws, weak domestic demand for goods, external national debt outstanding, limited external lines of credit, high cost of credit, frequent power outages.

2.2 Agriculture Sector Developments

The agriculture sector experienced some setbacks in 2011. By the end of the December 2011, the total hectarage under maize crop had shown that there was a reduction from what had been planted during the same time in 2010. A total of 247 881 hectares were planted at the end of the year against a total of 379 993 hectares that had been planted by 31 December 2010. This shows a 35% reduction in total hectarage. With the average productivity in the country at less than a tone of maize harvest per hectare, the signals are pointing to a maize deficit in the country, which, once again, may put another strain on the fiscus in terms of maize imports. Table 3 shows a comparison of hectarage under maize crop for 2010 and 2011.

Table 3: Maize Hectarage for 2009/2010 and 2010/2011 Seasons

<table>
<thead>
<tr>
<th>Province</th>
<th>2009/2010 (Hectares)</th>
<th>2010/2011 (Hectares)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mashonaland East</td>
<td>87 157</td>
<td>72 591</td>
</tr>
<tr>
<td>Mashonaland Central</td>
<td>41 815</td>
<td>17 116</td>
</tr>
<tr>
<td>Mashonaland West</td>
<td>60 404</td>
<td>29 628</td>
</tr>
<tr>
<td>Midlands</td>
<td>77 000</td>
<td>13 578</td>
</tr>
<tr>
<td>Manicaland</td>
<td>54 147</td>
<td>58 015</td>
</tr>
<tr>
<td>Masvingo</td>
<td>26 141</td>
<td>27 415</td>
</tr>
<tr>
<td>Matebeleland South</td>
<td>19 468</td>
<td>19 240</td>
</tr>
<tr>
<td>Matebeleland North</td>
<td>13 861</td>
<td>10 298</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>379 993</strong></td>
<td><strong>247 881</strong></td>
</tr>
</tbody>
</table>

Source: Agritex

In addition to maize, hectarage under sorghum and other small grains also declined from 136 131 hectares in the 2009/2010 season to 130 994 in the current season. For cotton, the land under the crop also declined from 107 727 ha in the previous season compared to the current season with 45 000 ha. The reduction in total hectarage for all major crops in the country would not have been a cause for concern if there were indications of improvements in productivity. However, productivity over the years has been on the low side, and coupled with the unpredictable rain season, the seasonal harvest is not looking good.

The cropping season has also been affected by the Grain Marketing Board (GMB)’s failure to pay for grain deliveries made during the year. This has resulted in farmers not being able to acquire inputs in time.

2.3 Mining Sector Developments

In 2011, the mining sector experienced a growth rate of about 25.8% with mining exports growing by about 38.7% contributing about half of the exports in 2011. The leading exports were platinum, contributing 45% and gold contributing 24% of the exports, and diamonds came third, contributing 10%. In 2012, the mining sector is expected to grow by 15.9%. Though the mining sector continues to face some challenges as we move to 2012. The challenges include:

- Electricity Supply: Erratic supply of electricity is inhibiting the growth of the sector. The pledge by the Finance Minister to ensure good supply of electricity may result in an improvement in the mining sector production;
- Lack of Finance: The mining sector requires huge long-term capital. Limited access to finance the much needed recapitalisation is limiting the production of minerals;
- Uncertain investment environment characterised by political uncertainty; and
- Capacity gaps created by the external brain drain.

Most mining firms also responded to the indigenisation requirements that were published by the Ministry of Youth Development, Indigenisation and Empowerment in March 2011. Mmnakau mining, a gold mining company agreed to dispose
51% of its shares to the locals. Three mining companies, ZIMPLATS, UNKI and MIMOSA launched community share ownership trusts and ceded 10% each of their shares to the local communities where they do their mining operations. The monies that accrue to the community trusts are expected to be used for the provision of social and economic infrastructure.

In 2012, mining is anticipated to remain the major driving force behind overall economic growth, benefitting from further private injections, from international commodity prices and anticipated initiatives to minimise electricity supply interruptions.

On 1 November 2011, the Kimberley Process Certification Scheme reached a compromise, allowing the sale of the Marange diamonds to the world markets, this is expected to boost production of the diamonds and the performance of the mining sector in general. The Government is anticipating about US$600 million from the sale of the Marange diamond in 2012.

Gold production from both small-scale and primary producers registered positive growth rate in 2011 (Figure 1). The small-scale producers increased their production from as low as 125 kg in January 2011 to about 429 kg in December 2011. Although there were some fluctuations in June and November, deliveries generally followed an upward trend. The same was experienced by the primary producers who started the year at 599 kg and closed the year with a production of 882 kg. A marked improvement can also be noticed from the small scale producers who managed to increase their share of production from 17% to 32% during the same period. This is despite the fact that in June their percentage contribution came down to 13%.

Figure 1: Gold Deliveries (January–December 2011)

![Gold Deliveries Graph]

Source: RBZ

2.4 Inflation Developments (December 2010–December 2011)

Annual inflation increased to 4.9% in December 2011, from 3.2% in December 2010 (Figure 2). The annual average for 2011 stood at 3.5%. Annual food and non-food inflation stood at 5.81% and 4.50%, respectively in December 2011. The annual inflation outcome of 4.9% in December 2011 is within the Government target of 5.1%. The main drivers of annual inflation for December 2011 included communications (10.71%); housing, water, electricity, gas and other fuels (10.47%); alcohol, beverages and tobacco (7.40%) and transport (6.54%). Housing rentals, rates and domestic power have been key drivers of inflation in 2011. These challenges are likely to have more effect on inflation in 2012, given the recent hikes in rentals and the persisting power outages. Month-on-month inflation declined to 0.2% in December 2011, from 0.5% in November 2011. Month-on-month food and non-food inflation stood at 0.33% and 0.15%, respectively in December 2011.
2.5 Interest Rate Developments

Lending rates remained relatively high over the period January-October 2011. The major reasons cited for the high lending rates include persistent liquidity shortages resulting from perceived risk, limited external lines of credit associated with perceived country risk, limited access to the lender of the last resort facility (LOLR) at the central bank, limited inter-bank lending, high bank operating costs, limited bank sources of income and a low bank deposit base of about US$3.21 billion as of October 2011. In a bid to assist banks, the Ministry of Finance availed US$7 million to the central bank as LOLR in February 2011. However, because of the stringent collateral requirements, banks could not access the LOLR facility. The collateral security requirements for the US$7 million included use of a Deed of Transfer on immovable property. In announcing the 2012
National Budget on the 24th of November 2011, the Minister of Finance further allocated US$100 million to the central bank as the LOLR facility. A committee was set to work out the modalities of accessing the facility. The funds are still to be disbursed to the central bank by the Ministry of Finance and the modalities for accessing the funds are still to be announced.

### Table 4: Annual Interest Rate Levels (%), January-October 2011

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

Source: RBZ, October 2011

Inter-bank lending remained limited largely because banks are not sure about their individual risk profiles. Banks have cited high operating costs, which include the use of emergency generators to operate automated teller machines (ATMs) due to frequent power outages. Against these high operating costs, bank sources of revenue have been limited to non-interest income sources such as bank charges.

Over the period January-October 2011, deposit and saving rates averaged 8.7% and 2.1%, respectively. The average savings rate of 2.1% compares with regional averages, which over January-December 2011, averaged Mozambique (9.68%), Zambia (7.4%), South Africa (6%) and Malawi (3.6%). The real savings rates in Zimbabwe are negative, and this is not conducive to savings mobilization.

### 2.6 Monetary Developments

Annual M3 growth (defined as total banking sector deposits) declined from 117% in October 2010 to 49.3% in October 2011 (Figure 3). The annual decline is associated with the movement from a low deposit base in 2009. On a month-on-month basis, M3 growth increased from 32.3% in September 2011 to 49.3% in October 2011.
Figure 3: Monetary Developments (October 2010-October 2011)

**Annual Broad Money Supply (M3) Growth (%)**

**Month-on-Month M3 Growth (%)**

Source: RBZ, October 2011
Total banking sector deposits (which are net of inter-bank deposits) increased from US$2.15 billion in October 2010 to US$3.21 billion in October 2011 (Figure 4). The increase in bank deposits is generally attributed to economic recovery and improving depositor confidence. The level of bank deposits reflects low average incomes in most sectors of the economy, low savings and money circulating outside the formal banking sector.

**Figure 4: Level of Total Banking Sector Deposits (October 2010-October 2011)**

![Figure 4: Level of Total Banking Sector Deposits (October 2010-October 2011)](source: RBZ, October 2011)

Figure 5 shows that over January-October 2011, the composition of total banking sector deposits was as follows: demand deposits (59.1%), saving and short-term deposits (32.1%) and long-term deposits (9.6%).

**Figure 5: Composition of Total Banking Sector Deposits (January-October 2011)**

![Figure 5: Composition of Total Banking Sector Deposits (January-October 2011)](source: RBZ, October 2011)

2.7 Fiscal Developments

The month of November 2011 recorded total revenues amounting to US$274.5 million against the monthly target of US$247.9 million. This brings the cumulative fiscal revenues to US$2.619 billion. In that regard, the revenue out-turn for 2011 is now projected at US$2.9 billion, marginally surpassing the original budget target of US$2.7 billion. In line with the Government cash budgeting principle, total expenditures to November 2011 were contained within the available resource envelop at US$2.4 billion, resulting in a budget surplus of US$216.1 million. Monthly Government revenues for the period January to November 2011 averaged US$238 million whilst monthly expenditures averaged US$218 million (Figure 6).
Of the major revenue collections to November 2011, the major contributions were VAT (32%), PAYE (20%), customs duty (12%) and excise duty (11%) as indicated in figure 7:

**Figure 7: Cumulative Contributions of the Major Tax Heads to Revenues (Jan-Nov 2011)**

Source: MoF, 2011

Of the US$2.404 billion cumulative expenditures to November 2011, recurrent expenditures at US$2.126 billion accounted for 88.4% whilst capital expenditures accounted for 11.6%, short of the targeted 20% mainly on account of increases in the public service wage bill, which drove recurrent expenditures to over 88.4% against the original target of 80%.

### 2.8 External Sector Developments

An automated customs clearance management system, Automated System for Customs Data (ASYCUDA), was introduced towards the end of 2011 by the Zimbabwe Revenue Authority (ZIMRA). Adaption to the new system proved difficult, resulting in congestion at the country’s borders and inability of imported products to get into the country. It is thus, not surprising that towards the end of the year, there was a significant drop in the levels of imports into the country (Figure 8).

While there had been a general upward trend in imports over the previous year (2010), November 2011 saw imports dropping by over 75% from the 2010 level, resulting in the month becoming the only one to register a drop in the level of imports in 2011. On a monthly basis, October and August registered significant growth rates in imports in
2011. The same growth rate patterns are also apparent on an annual basis, as there is an apparent spike on the annual percentage increase in the graph. The rapid increase in imports for August 2011 was caused by large scale importation of fertiliser from South Africa in preparation for the agriculture season (fertiliser importation increased by 90% in comparison to the July 2011 levels), which saw fertiliser constituting 60% of total imports for the whole month. The October 2011 surge in imports can be attributed to preparation for the festive season as traders start stocking. This was also about 140% higher than its 2010 value.

**Figure 8: Import Trends (2010 and 2011)**

![Graph showing import trends from January to November 2010 and 2011](source: ZIMSTAT)

The trend for exports also shows that exports improved in 2011 compared to 2010 except in November. In November 2011 exports fell by about 40% from their 2010 level, a situation which can be attributed to the same challenges of adapting to the ASYCUDA system. However, in general, there was an improvement in export performance in 2011.

**Figure 9: Export Trends (2010 and 2011)**

![Graph showing export trends from January to November 2010 and 2011](source: ZIMSTAT)

Although there was a positive trend in exports, the performance was not adequate to reduce the trade balance. Compared to its 2010 level, the 2011 trade balance worsened between August and October 2011, before picking up in November to a positive level (Figure 10). This was largely due to the temporary set-back on border clearance, which impacted more on imports than exports.
3. Stock Market Developments

The year 2011 was a challenging year for the Zimbabwe Stock Exchange (ZSE). The year had looked brighter at the onset but there were several challenges that weighed down on the stock market performance. During the first half of the year, the industrial index was on a high, gaining 15.31 points from 150.99 at the beginning of the year to peak at 166.3 in July. However, challenges such as liquidity constraints, investor confidence and low capacity utilization weighed down on the gains, resulting in the index closing the year at a low of 145.86. The mining index was the worst hit, losing 50% from the year opening level of 201.41, down to 100.7 at the close of trade on 30 December 2011. This development was on the back of the intensification of the implementation of the indigenisation policy during the year which began in the mining sector. This created uncertainties about the long-term returns on mining stocks, resulting in investors taking a cautious in trading in such stocks.

On the back of the poor stock performance, ZSE market capitalization, which had started the year above the US$4 billion mark, lost value to close the year at US$3.69 billion. The turnover volume on the ZSE also declined by nearly 1.5 billion shares, a decline from about 6 billion shares traded in 2010 to below 5 billion shares. Despite this decline, the value of the turnover increased by $118million, a sign of an increase in the average value of the shares traded. This indicates
the huge potential that resides in the stock market to be an avenue for investment. Below (Table 5) are the summary statistics for the ZSE for 2010 and 2011.

### Table 5: ZSE Summary Statistics (2010 and 2011)

<table>
<thead>
<tr>
<th>Year</th>
<th>Turnover Value US$ (Million)</th>
<th>Turnover Volume (Million)</th>
<th>Foreign Value Bought (Million)</th>
<th>Foreign Value Sold (Million)</th>
<th>No. of Shares Bought (Million)</th>
<th>No. of Shares Sold (Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>359.12</td>
<td>6,058.88</td>
<td>147.38</td>
<td>32.39</td>
<td>565.79</td>
<td>256.06</td>
</tr>
<tr>
<td>2011</td>
<td>477.52</td>
<td>4,610.01</td>
<td>190.53</td>
<td>152.54</td>
<td>686.70</td>
<td>640.43</td>
</tr>
<tr>
<td>Net (2011-2010)</td>
<td>118.40</td>
<td>-1,448.87</td>
<td>43.15</td>
<td>120.15</td>
<td>120.90</td>
<td>384.37</td>
</tr>
</tbody>
</table>

Source: ZSE, December 2011

The ZSE also recorded positive foreign inflows for both 2010 and 2011. However, the figure declined from a positive inflow of US$115 million recorded in 2010 to a positive of US$38 million in 2011.

### 4. Corporate Sector Developments

The year 2011 saw the corporate sector performance registering some positive trends but failing to recover to its pre-crisis levels. The failure in achieving a quick turnaround can be attributed to several reasons, chief among them being the slow progress in restructuring parastatals, which have largely performed dismally at a time when the corporate sector depended on them for improved service delivery. Poor service delivery saw companies failing to recover owing to interrupted electricity supply, unreliable transport for raw materials and unreliable water supply.

There were, however, some positive developments in terms of company performance. In the manufacturing sector for example, there was a visible upward trend in terms of capacity utilisation. According to CZI estimates, capacity utilisation increased from about 43.7% at the end of the first half of 2010 to averages of between 47% and 50% during the first six months of 2011. During 2011 there was a further upward trend, which pushed capacity utilisation to about 57.2% at the end of 2011.