The Zimbabwean economy remains challenged. Despite recording the least regional inflation rate of 0.09 percent in September 2014, the economy continues to face significant headwinds to growth. These are mainly reflected through lower-than-expected mining sector growth necessitating a revision of the sector’s initial growth projection from 10.7 percent to -1.9 percent, on account of weakening international prices of gold and platinum, which declined by 8.04 and 6.68 percent to average USD1,240.26 and USD1,364.91 respectively in September 2014 compared to the same period in 2013. Furthermore, the sector is faced with some domestic constraints, including power outages and funding challenges.

Further headwinds to growth include declining fiscal revenues, which, at the end August 2014, amounted to USD2.40 billion, about 2.79 percent lower than same period in 2013. Whilst a moderate fiscal deficit of USD19.59 million was incurred, the expenditure mix remains short-term and unsupportive of the government’s growth objectives, with recurrent expenditures accounting for 93.45 percent of the cumulative expenditures to August 2014. The external sector also remains weak with a trade deficit of USD2.3 billion at the end-August 2014. However, despite imports being 227.77 percent higher than exports, industrial imports constituted 27 percent of total imports, while capital goods constituted 16 percent, implying that a significant portion of the imports is going towards enhancing the capacity of the local economy to produce.

The Zimbabwe Stock Exchange was bearish in September 2014, on account of declining foreign investor participation. Market capitalisation declined by 0.33 percent from USD 5.16 billion in September 2013 to USD 5.14 billion in September 2014. Real weighted average lending rates have generally increased, despite marginally declining over the period April-August 2014 due to expectations of continued deflationary pressures. However, waning deflationary pressures and tight liquidity conditions will likely see real lending rates tightening in the short to medium term if no policy action is taken to abate the liquidity situation.

Despite these challenges to growth, the government of Zimbabwe is demonstrating commitment to institute policy measures to enhance growth, as espoused in the Mid-Year Fiscal Policy Review Statement of September 2014. Further, the government has agreed to a 15-month successor Staff Monitored Program (SMP) to end in December 2015, which seeks to lay the ground for stronger, more inclusive and sustainable economic growth. This follows the successful completion, by Zimbabwe, of the initial SMP implemented from April 2013.
2. REGIONAL ECONOMIC DEVELOPMENTS

2.1 Regional Inflation

In the SADC region, Zimbabwe recorded the lowest rate of inflation for September 2014 of 0.09 percent followed by Mozambique and Botswana with inflation rates of 2.23 percent and 4.5 percent respectively, (Table 1). Low levels of inflation in Zimbabwe and Botswana were a result of constrained demand, whilst in Mozambique, the low levels of inflation were buoyed by a stable Mozambican Metical currency against currencies of major trading partners.

Table 1: Trend in SADC Region Inflation, June – September 2014

<table>
<thead>
<tr>
<th></th>
<th>June 2014</th>
<th>July 2014</th>
<th>August 2014</th>
<th>September 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>22.5</td>
<td>22.3</td>
<td>24.5</td>
<td>-</td>
</tr>
<tr>
<td>Zambia</td>
<td>7.8</td>
<td>7.9</td>
<td>8.0</td>
<td>7.8</td>
</tr>
<tr>
<td>Angola</td>
<td>6.89</td>
<td>6.98</td>
<td>7.05</td>
<td>7.19</td>
</tr>
<tr>
<td>South Africa</td>
<td>6.6</td>
<td>6.3</td>
<td>6.4</td>
<td>-</td>
</tr>
<tr>
<td>Namibia</td>
<td>6.1</td>
<td>5.5</td>
<td>5.4</td>
<td>5.3</td>
</tr>
<tr>
<td>Botswana</td>
<td>4.55</td>
<td>4.5</td>
<td>4.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Mozambique</td>
<td>2.75</td>
<td>2.95</td>
<td>2.64</td>
<td>2.23</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>(0.08)</td>
<td>0.31</td>
<td>0.15</td>
<td>0.09</td>
</tr>
</tbody>
</table>

Source: Trading Economics/Zimbabwe Statistics Agency

Malawi is expected to maintain its position of having the highest inflation rate in the region, as the Malawi Kwacha continues to depreciate against major currencies, the cost of which importers pass on to consumers, thus fuelling inflation. The Malawian Kwacha depreciated from MK390 against the US dollar in July 2014 to MK 410 at the end of September 2014. The government is yet to institute major economic policy changes to address the falling Kwacha.

2.2 Regional Stock Markets

Malawi Stock Exchange performed well in September 2014, with the Domestic and All Share Indices gaining 2.15 percent and 2.13 percent, respectively, whilst on the Botswana Stock Exchange, domestic companies performed well. The Domestic Company Index rose by 0.16 percent, in contrast, the Foreign Companies Index, declined by -0.23 percent. Meanwhile the Zimbabwe Stock Exchange performed poorly among its peers losing -1.09 percent and -10.27 percent on the Industrial and Mining Indices respectively, followed by the Lusaka Stock Exchange, whose All Share index went down by -0.35 percent, (Table 2).

Table 2: Summary of regional Stock Market Performance in September 2014

<table>
<thead>
<tr>
<th>Zimbabwe Stock Exchange</th>
<th>Open</th>
<th>Close</th>
<th>Points</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Index</td>
<td>197.41</td>
<td>195.25</td>
<td>-2.16</td>
<td>-1.09%</td>
</tr>
<tr>
<td>Mining Index</td>
<td>103.38</td>
<td>92.76</td>
<td>-10.62</td>
<td>-10.27%</td>
</tr>
<tr>
<td>Malawi Stock Exchange</td>
<td>Open</td>
<td>Close</td>
<td>Points</td>
<td>Percentage Change</td>
</tr>
<tr>
<td>Index</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Index</td>
<td>10,807.86</td>
<td>11,040.46</td>
<td>232.6</td>
<td>2.15%</td>
</tr>
<tr>
<td>All Share Index</td>
<td>13,737.30</td>
<td>14,029.74</td>
<td>292.44</td>
<td>2.13%</td>
</tr>
<tr>
<td>Botswana Stock Market</td>
<td>Open</td>
<td>Close</td>
<td>Points</td>
<td>Percentage Change</td>
</tr>
<tr>
<td>Index</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic Companies Index</td>
<td>9,424.52</td>
<td>9,439.95</td>
<td>15.43</td>
<td>0.16%</td>
</tr>
<tr>
<td>Foreign Companies Index</td>
<td>1,584.97</td>
<td>1,581.28</td>
<td>-3.69</td>
<td>-0.23%</td>
</tr>
<tr>
<td>Lusaka Stock Exchange</td>
<td>Open</td>
<td>Close</td>
<td>Points</td>
<td>Percentage Change</td>
</tr>
<tr>
<td>Index</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lusaka All Share Index</td>
<td>6,242.78</td>
<td>6,220.90</td>
<td>-21.88</td>
<td>-0.35%</td>
</tr>
</tbody>
</table>

Source: African Financials website
The gold price declined by 8.04 percent and the platinum price by 6.68 percent to average USD1,240.26 and USD1,364.91 respectively in September 2014 compared to the same period in 2013.

3. Commodity Prices

3.1 Precious Metals

The precious metal prices witnessed a significant decline in September 2014, with the gold price falling by 8.04 percent on an annual basis to average USD1,240.26 per ounce in September 2014. Similarly, platinum price declined by 6.68 percent to USD1,364.91 per ounce over the same period (Figure 1). The tumbling of the gold and platinum prices was mostly driven by the appreciation of the USD against major currencies like the Euro and the Yen, as a result of increasing expectations of the Federal Reserve tightening its monetary policy, in response to positive growth in the US economy. The appreciation of US currency tends to affect precious metal prices in that they are denominated in USD. In addition, investors expect that the tightening of the US monetary policy will raise interest rates, thereby making it more profitable to hold interest bearing assets than precious metals like gold.

Month on month average gold price contracted by 8.92 percent from USD1,361.77 in August 2014, whilst the platinum price weakened by 5.54 percent from USD1,444.92 per ounce over the same period.

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

Source: Bloomberg and Reuters

The weakening of gold and platinum prices will continue to affect the viability of the Zimbabwean gold and mining firms as well as growth of the overall economy. The government revised the mining sector’s growth projection from 10.7 percent to -1.9 percent due to challenges the sector is facing. These include weak prices, power outages and inadequate funding. The government gave reprieve to gold producers through reduction of royalty fees from 7 percent to 5 percent and a reduction in presumptive tax from 2 percent for small scale miners. However, no incentives were extended to the platinum producers who are faced with similar challenges as gold producers, which may affect output and the completion of the refinery unit by the set date of December 2014.

3.2 Brent Crude Oil

The Brent crude oil market continued in a bearish mode in September 2014, with the oil price declining by 11.08 percent compared to September 2013 to average USD98.72 per barrel. On a month on month, the Brent crude oil price declined by 4.35 percent from an average of USD103.21 barrel in August 2014 (Figure 2). The fall in Brent crude oil price was mainly on account of several factors including: abundant supplies from the Middle East, US and Libya; weak demand from European refineries due to seasonal maintenance, which spilled into September and the appreciation of the US dollar.

However, despite the decline in the price of Brent Crude oil on the international market, fuel pump prices in Zimbabwe have been increasing, partly due to increased excise duties. The excise duty on petrol increased from 30 to 35 cent per litre, whilst that of diesel increased from 25 to 30 cents per litre with effect from 15 September, 2014. The hike in excise duty resulted in petrol pump prices rising from USD1.50 to an average of USD1.55 per litre, whilst diesel also rose to USD1.39 from USD1.44 per litre.
Wheat and maize prices continued to decline in September 2014 owing to increasing expectations of abundant supplies as a result of favourable crop conditions in major exporting countries.

The Government pledges to mobilise USD98.6 million towards agriculture mechanization, whilst a further, USD 252.3 million has been earmarked to procure 2014/15 agricultural inputs.

Similarly, maize prices continued to decline for the fifth consecutive month in September 2014. The price of maize declined from USD192 per tonne on September 1, to end the month at USD177 per tonne owing to the abundant supply in the market. The 2013/14 maize crop from the Southern Hemisphere is still selling whilst the winter harvesting is underway in the US and the Black Sea region hence the pressure on the maize price.

However, changes in international maize prices have no impact on Zimbabwe’s set price, given that the Government set a minimum buying price of maize at USD390 per tonne.

3.3 Wheat and Maize

The wheat price continued on a weak trend in September 2014, owing to good winter harvests and favourable spring crop conditions which are increasing expectations of high yields from Europe, Commonwealth Independent States and China. During the month, wheat prices declined from USD284 per tonne on September 1 to USD264 on the 12th of September before improving to close the month at USD282 per tonne (Figure 3). The improvement in price was due to quality concerns as well as logistical issues in the Northern Europe.

Figure 3: Daily Maize and Wheat Export Prices July – September 2014

Source: International Grain Council

4. MACROECONOMIC OVERVIEW

4.1 Sector Developments

4.1.1 Agriculture

Tobacco Seasonal Sales

Flue cured tobacco seasonal sales stood at 216. million kg as at 19 September 2014 and were sold at an average price of USD3.17/ kg compared to 167. million kg sold at an average price of USD3.67/kg over the same period in 2013. This racked in USD685. million in total revenue compared to USD612 million realised same time last year. Whilst tobacco sales are winding up, as many as
71,078 farmers have already registered their intention to grow tobacco in the 2014/15 season as compared to 65,703 who had done so during the same period in 2013. Many farmers however felt short changed during the just ended tobacco marketing season particularly those that traded tobacco through the auction floors. They raised concerns about possibilities of cartels of unscrupulous buyers who charged ridiculously low prices that ranges from USD0.60 –USD3.00/kg especially at the start of the marketing season. Farmers felt that such low prices were not viable considering the amount of money they would have spent in procuring inputs, labour and transporting the crop to the market. Although investigations are paramount to weed out any possibilities of cartels, farmers need to work towards improving the quality of tobacco they deliver to the market in order to enjoy high prices for their crop. On the other hand, transparency of terms under the contract farming arrangements between the farmers and the contractors may go a long way in assisting farmers realizing the value of their investment.

**Government support to the 2014/15 agricultural season**

In the 2014 National Budget, the government pledged to mobilise USD98.6 million towards agriculture mechanization, which is to be released in three tranches. As much as USD1.1 million worth of equipment had been received by end of July 2014 with the balance from USD38.6 million under the Tranche 1 expected to have been received by end of October 2014 in preparation for the next farming season. Further, USD 252.3 million has been earmarked to procure 2014/15 seasonal inputs for the communal, old resettlement, A1 and small scale farmers. The inputs in seed and fertilizer are meant to boost production of maize/small grain, cotton, livestock as well as cow/peas. The government has also allocated funds and issued Treasury Bills in order to offset debts owed to the input suppliers. Whilst this is applauded the government may further consider, setting a conducive environment through policy reform that promotes use of local seed and fertilizers particularly for contract farming as this can serve as a spring board for recovery and vibrancy of the local industry. The same applies to the farm implements; imports can be replaced by injecting funds allocated for procuring such imports into the local industries so as to increase their capacity utilisation.

**Milk production**

The January – August 2014 milk production reached a total of 36.3 million litres surpassing the 35.9 million litres recorded in 2013 by only 1.2%, (Figure 4). The production of milk continues to face stiff competition from imports on milk and milk products from cheaper world producers.

**Figure 4: Milk Production between January 2013 and August 2014**

In its 2014 Mid-Year Fiscal Policy Review, the government reviewed upwards import duties of milk and milk products with a view to curb the influx of imports so as to support the growth of the dairy sector as well as the recovery of the local industry.

**4.1.2 Mining**

**Major Minerals Outlook**

According to the Zimbabwe Chamber of Mines, total mining earnings for Zimbabwe (excluding diamonds) decreased by 1.68 percent for the first half year of 2014 compared to the same period in 2013. Total mining earnings (excluding diamonds) decreased by 1.68 percent to USD 923.45 million for the first half to June 2014 compared to the same period in 2013, with gold accounting for 30.05 percent of total revenue.
Mining revenue decreased to USD 923.45 million in the first half of 2014 from USD 939.20 million realised during the same period in 2013. The decrease in revenue can be attributed to the poor performance of the prices on the international market. Gold was the major contributor to total mining revenue, accounting for 30.05 percent whilst platinum contributed 28.53 percent of the total mining earnings.

Gold Deliveries
Total gold deliveries increased by 40.80 percent from to 1425.47 kg in September 2014 compared to the same period in 2013, (Figure 5). Over the same period, deliveries by primary producers increased by 16.06 percent to 915.93 kg in September 2014, whilst deliveries by small-scale producers increased by 128.27 percent to 509.53 kg.

Other Mining Developments
Aim-Listed African Consolidated Resources (AFCR) plans to acquire Dalny mine (a gold mine), which was shut down in August 2013 collapsed as the company announced that it was unable to raise funds for the deal. The company was supposed to raise USD 12 million as a precondition to acquire the mine and its infrastructure. AFCR had advanced USD 500,000 as initial payment, which will be refunded as a result of the termination of the agreement. The acquisition of Dalny mine had come as great news in the mining sector since total gold deliveries have been falling short of the projected amount of 15,000 kg which was revised to 13,800 kg by the Ministry of Finance and Economic Development.

4.1.3 Manufacturing
In September 2014, the country’s leading beverages producer, Delta Beverages announced that it was reducing prices of several of its beer brands, in response to the low disposable consumer income. The price reduction for the products ranged from 4 to 20 percent. During the same period, one of the country’s largest manufacturers and marketers of food products, National Foods, released its financial results for the year ending June 2014. The results showed that revenues had grown by 11 percent, spurred by an 8 percent increase in sales volumes compared to the previous financial year. In the same month, emerging giants in the dairy industry, Dendairy Limited, indicated that it had invested about USD 4 million to purchase an additional manufacturing equipment to expand its product portfolio.

These developments reveal the general response of the players in the manufacturing sector to the prevailing economic and policy environment in the country. While Delta can afford to experiment with lowering prices due to its size, the demand for beer is generally known to be price inelastic such
that the move might not yield the anticipated results. It remains to be seen how the move would affect its sales volumes over the next few months.

The investment by Dendairy generally reflects that the firm views the outlook of the dairy industry as positive. Although this could have been based on other factors, the protectionist measures given to the dairy industry under the 2014 National Budget Statement (together with the Mid-Year Fiscal Policy Review 2014) could have spurred the firm into action to try and capture the import market. Among other things, the positive performance from National Foods could also be due to the effect of these policy measures, as statistics show that the level of imports for protected products have been going down since the measures were put in place.

The developments generally reveal that while the demand side remains constrained by liquidity challenges, manufacturing firms, especially in the food sector, are trying to come up with the necessary strategies to enhance production. It is on this basis that the outlook can be seen as positive, especially given the poor performance that had been recorded over the past years.

4.1.4 Tourism

International tourist arrivals increased by 4.6 percent in the first half of 2014, according to the United Nations World Tourism Organisation (UNWTO) barometer. The growth was strongest for America which grew by 6 percent, followed by the Asia Pacific and Europe both at 5 percent. International arrivals in Africa increased by 3 percent mainly supported by the recovery of North Africa with grew by 4 percent.

Zimbabwe’s international tourists arrivals grew by 1 percent in the first half of the year 2014 compared to same period in the previous year to reach 867,163. The growth was a result of increased arrivals from Europe which grew by 13 percent (with the United Kingdom and Germany constituting 51 percent of arrivals) and America by 18 percent. Arrivals from Asia fell by 38 percent to 16,370, led by arrivals from China which declined by 73 percent to 2,730. Mainland Africa arrivals to Zimbabwe declined by 1 percent for the first six months of the 2014 to 745,566. The decline was a result of reduction in arrivals from South Africa, owing to the weakening of the South African Rand against the US dollar. Mainland Africa constitutes about 86 percent of total arrivals.

Zimbabwe need to enhance its marketing efforts through the use of internet platforms as well as cable and satellite channel networks like the CNBC- Africa, Cable News Network, to feature some of the country’s best tourism products. The marketing efforts should be complemented by efficient visa processing, including on-line and at port of entry visa issuance; improved international airline connectivity and positive country publicity. The hosting of the Zimbabwe International Tourism Exchange in London in September, 2014 by Zimbabwe Tourism Authority to promote the country’s MICE (Meetings, Incentives, Conferences and Events) tourism is one such strategy that can enhance Tourist arrivals. However, more can be achieved if similar events are extended to other countries with Zimbabwe consulates, resources permitting.

4.2 The Financial and Monetary Sector

4.2.1 Stock Market

The industrial index opened trading at 197.41 in September 2014, losing 2.16 points (-1.09 percent) before closing the month at 195.25. The mining index which showed a positive trend in August lost 10.62 points (-10.27 percent) to close at 92.76 after opening the month’s trading at 103.38, (Figure 6).

A monthly comparison of stock market activities showed that both Turnover value and volume decreased by 48.71 percent and 35.72 percent respectively between August and September 2014. The bulk of trade on the local bourse was accounted for by Econet Wireless Zimbabwe (22.42 percent), Delta Corporation (15.67 percent), CBZ Holdings Limited (14.37 percent) and Innscor Africa Limited (12.57 percent). Meanwhile, the share of foreign investors in total turnover declined to 48.8 percent in September from 80.7 percent in August 2014. The poor performance of the stock market can be attributed to the decline in foreign investor participation on the local bourse and the liquidity challenges currently being faced by local investors.

International tourist arrivals to Zimbabwe increased by 1 percent in the first half of 2014

ZSE bearish on account of declining foreign investor participation

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1 Zimbabwe Tourism Authority Preliminary Report on Tourism Trends and Statistics for First Half of 2014
Real weighted average lending rates have generally increased, despite marginally declining over the period April-August 2014 due to expectations of continued deflationary pressures.

On a year on year comparison, at 195.25 in September 2014 the industrial index failed to surpass its September 2013 performance of 205.05 by 4.8 points. On the other hand, the mining index surpassed its performance in September 2013 by 42.47 points (Figure 6), despite showing signs of decline.

Table 3: Summary Statistics for the Zimbabwe Stock Exchange for September 2013 and 2014

<table>
<thead>
<tr>
<th>Date</th>
<th>Sep-13</th>
<th>Sep-14</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Value (USD)</td>
<td>37,672,695.24</td>
<td>34,056,010.69</td>
<td>(9.60)</td>
</tr>
<tr>
<td>Turnover Volume</td>
<td>123,897,738</td>
<td>210,942,393</td>
<td>70.26</td>
</tr>
<tr>
<td>Value of Shares bought by Foreigners</td>
<td>23,040,863.08</td>
<td>16,632,896.15</td>
<td>(27.81)</td>
</tr>
<tr>
<td>Value of Shares sold by Foreigners</td>
<td>16,830,440.55</td>
<td>16,462,615.96</td>
<td>(2.19)</td>
</tr>
<tr>
<td>Volume of Shares bought by Foreigners</td>
<td>47,923,124</td>
<td>67,243,606</td>
<td>40.32</td>
</tr>
<tr>
<td>Volume of Shares sold by Foreigners</td>
<td>44,822,232</td>
<td>64,177,093</td>
<td>43.18</td>
</tr>
<tr>
<td>Market Capitalisation</td>
<td>5,157,202,771</td>
<td>5,140,164,893</td>
<td>(0.33)</td>
</tr>
</tbody>
</table>

An annual comparison of stock market turnover showed that turnover value declined by 9.60 percent from USD 37.67 million in September 2013 to USD 34.06 million in September 2014, whilst turnover volume rose by 70.26 percent to USD 210.94 million in September 2014 from USD 123.90 million in September 2013. The volume of shares traded by foreign investors as indicated by the volume of shares bought and sold by foreigners rose by 40.32 percent and 43.18 percent respectively. On the other hand the value of shares bought and sold by foreigners declined by 27.81 percent and 2.19 percent respectively (Table 3). Market capitalisation which stood at USD 5.16 billion in September 2013 declined by 0.33 percent to USD 5.14 in September 2014.

4.2.2 Interest Rates

Over the period March 2012 to June 2014, real average weighted lending rates for commercial and merchant banks to individuals and corporates have generally increased, (Figure 7). The real average weighted lending rates peaked in March 2014 before marginally declining over the period April to August 2014, a development mainly anchored by low inflation premium due to expectations of continued deflation.

However, waning deflationary pressures and tight liquidity conditions will likely see real lending rates tightening in the short to medium term if no policy action is taken to abet the liquidity situation. The plans by RBZ to have banks and bank Chief Executive Officers establishing forums to review lending rates and share ways of improving efficiency might be useful, if such forums do not develop into cartels. There is need for complementary measures that increases liquidity in the economy. These include, among others, measures that boost exports, attract foreign investments and increase remittances.
4.2.3 Monetary Developments

Annual growth in broad money supply (M3), defined as total banking sector deposits (net of inter-bank deposits), increased from 5.8 percent in August 2013 to 13.9 percent in August 2014, (Figure 8). Monthly M3 growth accelerated from -2.3 percent in July 2014 to 2.3 percent in August 2014.

The growth in annual M3 reflects the increase in total bank deposits from USD 3.80 billion in August 2013 to USD 4.32 billion in August 2014, (Figure 8). All classes of deposits recorded an increase, with long-term deposits recording the largest increase of 59.19 percent, (Table 4), and consisted 19.60 percent of total bank deposits as at end of August 2014. The growth in long-term deposits creates potential for long-term lending by banks to support projects with longer gestation periods.

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

<table>
<thead>
<tr>
<th>Type of deposit</th>
<th>August 2013</th>
<th>August 2014</th>
<th>Annual increase (absolute) USD billion</th>
<th>Annual increase (percent)</th>
<th>Share in total deposits as at end August 2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand Deposits</td>
<td>2.01</td>
<td>2.12</td>
<td>0.11</td>
<td>5.43</td>
<td>49.06</td>
</tr>
<tr>
<td>Saving &amp; Short-Term Deposits</td>
<td>1.25</td>
<td>1.35</td>
<td>0.10</td>
<td>8.11</td>
<td>31.33</td>
</tr>
<tr>
<td>Long-Term Deposits</td>
<td>0.53</td>
<td>0.85</td>
<td>0.32</td>
<td>59.19</td>
<td>19.60</td>
</tr>
<tr>
<td><strong>Total Deposits</strong></td>
<td><strong>3.80</strong></td>
<td><strong>4.32</strong></td>
<td><strong>0.53</strong></td>
<td><strong>13.85</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

The increase in total bank deposits has been accompanied by increase in the stock of domestic credit from USD 3.99 billion in August 2013 to USD 4.18 billion in August 2014. However, over the same period, the proportion of credit to the private sector has declined from 92.62 percent to 89.09 percent. This reflects increased lending to Government and Parastatals from USD 234.12 million and USD 60.36 million in August 2013 to USD
Share of private sector credit declined by 3.52 percent to 89.09 percent as Government and Parastatals increase their borrowing.

Declining aggregate demand due to liquidity constraints in the economy and the strengthening of the USD against the South African Rand suppresses annual inflation.

Industrial imports constituted 27 percent of total imports, while capital goods constituted 16 percent, implying that a significant portion of the imports goes towards enhancing the capacity of the local economy to produce.

As at end of August 2014, total private sector credit amounted to USD 3.72 billion, the bulk of which was distributed as loans & advances (83.7 percent). The loans and advances were mainly distributed to agriculture (18.67 percent), distribution (16.89 percent), and individuals (16.12 percent). Agriculture sector is considered the mainstay of the economy and hence it is given priority in lending. The distribution sector is usually preferred by banks as the production cycles tend to be short and hence compatible with short-term loans that banks mainly offer. Bank lending to individuals is higher relative to some real sectors (e.g. mining and construction sectors). This is explained in part by the fact that loans to individuals attract higher lending rates relative to corporates and they are salary-backed, hence more secure.

4.3 Inflation

Contrary to expectations year on year inflation rate for September 2014 stood at 0.09 percent, shedding 0.06 percentage points from the August 2014 rate of 0.15 percent. The year on year Food and Non-Alcoholic beverages inflation for September 2014 stood at -2.95 percent whilst the Non-food inflation rate was 1.59 percent, (Figure 10). The decline in annual inflation was underpinned by the fall in aggregate demand due to liquidity constraints and the strengthening of the USD against the South African Rand taking into account that South Africa accounts for a large proportion of Zimbabwe’s imports. Therefore, price decreases were noted in the following categories; Miscellaneous Goods & Services (-3.06 percent), Furnish, House Equip & Routine Maintenance (-1.49 percent), Recreation & Culture (-0.85 percent), Clothing & Footwear (-0.34 percent), and Communication (-0.32 percent). On the other hand, price increases were noted in the following categories; Alcoholic Beverages & Tobacco (2.10 percent), Transport (0.99 percent), Health (0.98 percent) and Restaurants & Hotels (0.28 percent).

4.4 External Sector

Total imports from January to August 2014 were USD4.1 billion, having decreased by about 21.1 percent from the total imports during the same period in 2013. Although total imports declined in 2014, a rising trend over the months is noticeable, (Figure 11), which could imply that by December, the import levels could rise significantly. An analysis of the composition of the imports revealed dominance of industrial supplies as they constituted about 27 percent of total imports. This is a positive development which is likely to enhance the production capacity of the local industry. Capital goods (excluding transport equipment) also constituted about 16 percent of the imports, generally implying that a significant share of
the imports is earmarked for enhancing the production capacity of the local industry. Fuel and lubricants constituted about 17 percent of the imports while consumer goods, transport equipment and food and beverages had a share of 9 percent, 10 percent and 9 percent, respectively.

**Figure 11: Exports, Imports and the Trade deficit (USD), Zimbabwe Jan-Aug, 2013 and 2014**

![Chart showing exports, imports, and trade deficit from January to August 2013 and 2014.](image)

**Source:** ZIMSTAT

Exports reached a cumulative figure of about USD1.8 billion, registering a 14.1 percent decline from the level recorded during the same period in 2013. This export underperformance contributed to the trade deficit of about USD2.3 billion, which was about 25.9 percent lower than that recorded over the same period in 2013. Total exports during the period constituted only 80 percent of the trade deficit, as exports were lower than the trade deficit during the period under review, except for January and August (Figure 9). Exports have to substantially increase in order to cover the trade deficit. Unprocessed primary agriculture and mining products continued to dominate exports during the period but higher export values can be achieved through value addition of primary products.

### 4.5 Fiscal Policy

**Revenues outturn**

The government revenue outturn for August 2014 amounted to USD305.97 million. Cumulative revenue for the eight months amounted to USD2.40 billion, (Figure 12), 4.62 percent lower than the cumulative target of USD2.52 billion. The cumulative outturn to August 2014 was 2.79 percent lower than the USD2.47 billion realised over the same period in 2013. Against a background of lower-than-expected revenue outturn in 2014, Government instituted a number of revenue enhancing measures in the Mid-Year Fiscal Policy Review of September 2014. These measures included, among others, taxing employee fringe benefits; US 0.5 cents increase in excise duty on diesel and petrol to USD0.30 and USD0.35 cents per litre, respectively; excise duty of 5 percent on air time for both voice and data; levy customs duty on mobile handsets at a rate of 25 percent, review of rentals for government housing, review of customs duty on motor vehicle imports, among others.

Whilst these measures can help improve revenue outturn, there is need for the Government to consider coming up with a coherent regime for taxing the informal sector businesses. This is in view of the structural shift witnessed in the economy, wherein, the informal sector has grown in importance, accounting for 84 percent of the 5.4 million persons employed in Zimbabwe in 2011. Targeting these workers and business, who seldom pay taxes, through formalisation, can help improve revenue outturn.

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The expenditure mix remains highly unsustainable and unsupportive of the government’s growth objectives, with recurrent expenditures accounting for 93.45 percent.

Zimbabwe met quantitative targets and structural benchmarks under the third and last review of the IMF Staff Monitored Program.

Expenditure Outturn

Government expenditure for the eight months to August 2014 amounted to USD2.42 billion, resulting in a primary deficit of USD19.59 million. The government is, therefore, faced with the twin challenge of rebalancing its fiscal stance whilst at the same time improving its expenditure mix, which has largely been consumptive. The Government’s medium-to-long term fiscal policy stance should put more emphasis on capital and social expenditures, with high impact on growth. As at August 2014, recurrent expenditures of USD2.26 billion, accounted for 93.45 percent, with the remainder being capital expenditures. Of the recurrent budget, wage-related costs accounted for 75.37 percent at USD1.70 billion, which is unsustainable.

5. TOPICAL ISSUES

5.1 Zimbabwe’s Performance under the Staff Monitored Program

The IMF third and last review of the Zimbabwean economy under the Staff Monitored Program approved in April 2013, was held from September 17 to October 1, 2014. It was noted that Zimbabwe had met the quantitative targets and structural benchmarks under the program by end of June 2014. Although the government has intensified its efforts to rebalance policies towards a stable macroeconomic environment conducive to private sector-led growth, economic conditions remain difficult.

The Mission reached an agreement on policies for a 15-month successor Staff Monitored Program to end in December 2015 which consists of the following major areas:

- Rebalancing the expenditure mix towards infrastructure and social outlays, underscoring the importance of containing pressures on the wage bill given scarce public resources. This is because deficiencies in the availability of infrastructure are an impediment to long-term development. In addition, stepping up reforms in the taxation of the mining sector, amending the Public Finance Management and Procurement Acts and approving the Public Debt Management Bill are critical.
- Approval of the draft operational framework by the Reserve Bank of Zimbabwe for the acquisition of nonperforming loans by the Zimbabwe Asset Management Company to restoring confidence and stability in financial sector. Amendments to the Reserve Bank of Zimbabwe Act, and the Banking Act, are also instrumental in restoring confidence and bringing stability to the sector.
- Stepping up re-engagement with all creditors on the country’s debt and arrears burden, hence the need to gather support to define a strategy for clearing arrears with multilateral institutions.
- Enhancing clarity on the Indigenisation and Economic Empowerment Laws as a way of encouraging potential investors. This step will go a long way towards calming negative perceptions on the security of investments and property rights, provide legal transparency and predictability, and reassure markets of the government’s open invitation to invest in Zimbabwe.
The issue of limited fiscal space is persistently hampering the expenditure towards infrastructure which is critical for growth. Increased investment is essential to upgrade infrastructure networks and to eliminate infrastructure bottlenecks. The World Economic Forum (2014) noted that increased public infrastructure investment on clearly identified infrastructure needs raises short, medium and long-term output, as higher infrastructure capital stocks expand productive capacity, particularly during periods of economic slack and when investment efficiency is high. Borrowing costs are currently low and demand is weak in advanced economies, hence the country is missing opportunities to borrow due to high and unsustainable external debt. To tackle the fiscal space problem, there is need to step up revenue mobilization and improve spending efficiency given limits on the available external financing.