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ABBREVIATIONS

Agritex	Agriculture and Extension Services
BoP	Balance of Payments
BTS	Boka Tobacco Floors
CBZ	Commercial Bank of Zimbabwe
COPAC	Constitution Parliamentary Committee
DIMAF	Distressed and Marginalised Areas Fund
EMU	Economic and Monetary Union
EU	European Union
FBC	First Banking Corporation
FOMC	Federation Open Market Committee
GDP	Gross Domestic Product
GMB	Grain Marketing Board
ha	Hectare
HDI	Human Development Index
IDP	Industrial Development Policy
IEA	International Energy Agency
IMF	International Monetary Fund
IPPs	Independent Power Producers
LOLR	Lender of Last Resort
M3	Broad Money Supply in Zimbabwe
MENA	Middle East and North Africa
MoF	Ministry of Finance
MPC	Monetary Policy Committee
MT	Metric Tonnes
MTF	Millennium Tobacco Floors
MTP	Medium Term Plan
NSSA	National Social Security Authority
OECD	Organisation of Economic Co-operation and Development
OPEC	Organization of the Petroleum Exporting Countries
PMI	Purchasing Manufacturing Index
PPI	Producer Price Index
PPPs	Public-Private Partnerships
PTF	Premium Tobacco Floors
Q1	First Quarter
Q2	Second Quarter
Q4	Fourth Quarter
RBZ	Reserve Bank of Zimbabwe
RTGS	Real Time Gross Settlement
SADC	Southern African Development Community
SECZ	Securities Commission of Zimbabwe
SSA	Sub-Saharan Africa
t/ha	Tonnes per hectare
TSF	Tobacco Sales Floors
UNWTO	United Nations World Tourism Organisation

US	United States
VAT	Value Added Tax
WB	World Bank
ZABG	Zimbabwe Allied Banking Group
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZERA	Zimbabwe Energy Regulatory Authority
ZETSS	Zimbabwe Electronic Transfer Settlement System
ZIA	Zimbabwe Investment Authority
ZIMSTAT	Zimbabwe National Statistics Agency
ZSE	Zimbabwe Stock Exchange
ZTA	Zimbabwe Tourism Authority

DIRECTOR'S MESSAGE

In this sixth edition of the Economic Barometer, like its predecessors, we sought to give you our valued readers, a review and insights on the major economic developments that took place in the preceding quarter. We also offered suggestions on the way forward on the challenges identified in this review. On the global and regional economic developments, we looked at world economic developments, international commodity prices and SADC inflationary developments to contextualise the Zimbabwean economic developments. This issue of the Economic Barometer focused on fiscal developments and their implications, performance manufacturing, mining agricultural, external and tourism sectors. We hope you will find the sections on the financial sector developments, banking sector deposits, bank credit to the private sector, bank loan-to-deposit ratio, money supply developments and the stock markets developments informative and insightful. The last section of the barometer looks at political and governance issues and other topical issues which also provide a context of the prospective growth and development of the economy. In this issue we looked at the Cabinet approval of mandatory blending of ethanol and the launch of the energy policy. Power and energy are critical enablers in the growth of this economy and hence the development of renewable energy and the drive through the launch of the Energy Policy to increase electricity generation capacity in the country is in did a welcome development.

It is our hope that you will get something in this issue of the Economic Barometer that attracts your attention and provide you with new perspective. Our intention in compiling t this publication, is to make this publication informative to our diverse readership. As is often said, the only room that is always available is the room for improvement. In this regard we welcome your feedback with ideas and comments on how we can improve the content and analysis in the Economic Barometer to meet your expectations. We remain committed to ever improving this flagship publication in the interest of our valued stakeholders. Should, you have any comments please get in touch with us on administration@zeparu.co.zw.

Dr. Gibson Chigumira
Executive Director

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EXECUTIVE SUMMARY

In the third quarter of 2012, the global economic developments continued to be characterised by setbacks and uncertainty, leading to the revision of the global growth forecast downward to 3.3 percent, despite the various stimulus packages announced by the developed countries. The troubles in the Euro-zone continued to weigh down prospects for global growth whilst, United States' fiscal policy weaknesses continued to inhibit growth. The performance of commodity markets was closely related to macroeconomic uncertainty, especially apprehension over the Euro-zone's sovereign debt crisis, signs of further deceleration in emerging and developing economies, as well as the weaker US economy during the third quarter of 2012. Several commodity prices, especially base metals, were affected by the fragile global economic situation, whilst high grain prices were sustained by supply tightness emerging from the severe drought in the US.

On the local economic front, economic growth projections were reviewed downwards from 9.4 percent to 5.6 percent for 2012. This was as a result of sluggish performance in the key sectors of the economy. Agriculture, tourism, distribution, hotels and restaurants performed below 2012 government projections. The poor performance in these sectors was attributed to the slow-down in economic activity, low investor confidence due to policy inconsistencies and uncertainty, fiscal revenue under-performance, corruption, lack of capital, limited capacity to monitor and implement government projects, slow pace of reforms and a volatile and fragile global economy.

The inflation rate in the country continued to be within the annual target range and the SADC macroeconomic convergence range of below 5 percent. The rate of inflation closed the third quarter at 3.2 percent. The major cause of inflation has been identified as the increasing rental prices on the back of low activity in the construction industry, resulting in excess demand for existing accommodation. The country's inflation rate remains fairly comparable to the inflation rates obtaining in other countries in the region. Mozambique has the lowest rate at 1.4 percent (August 2012) while Malawi has the highest inflation rate of above 20 percent.

On the fiscal developments, the country's revenue generation capacity remains below projections. The underperformance of revenues is seriously undermining government's capacity to implement the public sector investment programmes. The underperformance of government revenue against the budgeted target emanates in part from the government's overestimations of projected diamond revenues for 2012.The failure to attain projected diamond revenue has raised questions on how realistic diamond revenue projections were. The other related issue that stakeholders are seeking answers is the extent of leakages especially from the mining sector and their implications on revenue collection.

The manufacturing sector continues to be affected by the closure of many companies. The milling industry saw some of its operations at Blue Ribbon Industries temporarily suspended owing to shortages in working capital. This follows the court challenges that was faced by another milling company, Victoria Foods as one of its suppliers pushed for the liquidation of the company.

Tobacco deliveries for the 2012 selling season was characterised by an improvement in total deliveries. Total deliveries increased by 9.14 percent from 132.4 million kilograms in 2011 to 144.5 million kilograms delivered in 2012. An important development during this selling season was the increase in the amount of tobacco delivered by A1 resettled farmers. Mashonaland Central, West and East dominated the production of the crop while Midlands and Matabeleland regions were the worst performers in terms of deliveries.

Royal Bank surrendered its bank license to the RBZ on the 27th of July 2012, raising concerns in the financial sector. This followed the bank's failure to meet the minimum capital requirement of US$12.5 million for commercial banks. The Central Bank did not expect the closure of Royal Bank to have significant systemic risk because of its negligible market share in terms of loans and advances, deposits and capitalization. However, each time a bank fails, questions are raised regarding the overall health of the financial sector. This ultimately undermines the confidence in the banking sector and by implication, deposit mobilisation.

The minimum capital requirements were increased during the third quarter of 2012 when the RBZ announced the Mid-Term Monetary Policy Statement. Financial institutions are expected to fully comply with the minimum capital requirements by the 30thof June 2014 whilst all financial institutions were given up to the 30th of September 2012 to submit comprehensive proposals on how they plan to comply with the revised minimum capital requirements.

The market sentiments point to the fact that the current stock exchange is not in a position to cater for the needs of all potential investors as evidenced by plans by different stakeholders to establish different stock markets. In this regard, Brainwork's Capital Management Limited is understood to have applied for a license to establish a stock exchange (Harare Stock Exchange), the Ministry of Youth Development, Indigenisation and Empowerment has announced plans to establish an Indigenisation Stock Exchange while the Ministry of State Enterprises and Parastatals has also announced its plans to establish an equities market for parastatals. This calls for a critical review of the operations of the current stock market and to devise means to cater for the needs of all other categories of investors.

1.0 GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

1.1 World Economic Developments

Global recovery suffered new setbacks and uncertainty, prompting a downward revision of the growth forecast according to the World Economic Outlook (WEO) update. Policies implemented in the major advanced economies have not fostered confidence in medium-term prospects, whilst concerns relating to the viability of the Euro Zone and major United States fiscal policy weaknesses continued to inhibit growth. Indicators of economic activity show increasing economic sluggishness in the first half of 2012 and no significant improvement in the third quarter. The World Economic Outlook of October 2012 forecast global growth, at 3.3 and 3.6 percent in 2012 and 2013, respectively as shown in Table 1. These revised projections are weaker than the projections made in July 2012 of 3.5 and 3.9 percent in 2012 and 2013, respectively.

Table 1: Overview of the World Economic Outlook Projections

	2010	2011	2012	2013
World Output	**5.1**	**3.8**	**3.3**	**3.6**
Advanced Economies	**3.0**	**1.6**	**1.3**	**1.5**
United States	*2.4*	*1.8*	*2.2*	*2.1*
Euro Area	*2.0*	*1.4*	*-0.4*	*0.2*
Emerging & Developing Economies	**7.4**	**6.2**	**5.3**	**5.6**
Russia	*4.3*	*4.3*	*3.7*	*3.8*
China	*10.4*	*9.2*	*7.8*	*8.2*
Brazil	*7.5*	*2.7*	*1.5*	*4.0*
India	*10.1*	*6.8*	*4.9*	*6.0*
Middle East & North Africa	**5.0**	**3.3**	**5.3**	**3.6**
Sub-Saharan Africa	**5.3**	**5.1**	**5.0**	**5.7**

Source: World Economic Outlook, October 2012

The United States economy is projected to grow at about 2 percent during 2012–13, on the back of significant legacy effects of the financial crises and housing busts as well as uncertainty and weaker external demand weighing on aggregate demand. Further escalation of the euro zone crisis presents the main external risk to growth prospects in the US.

WEO October 2012 has noted that activity in Europe contracted by about 0.25 percent during the first half of 2012, mainly on account of further escalation of financial stress during the second quarter in the Euro Zone periphery. The impact is most direct in these economies themselves, and all except Ireland are in recession. However, spill over effects are increasingly reaching other economies in the region, given the strong trade and financial linkages. Rising uncertainty about the viability of the Economic and Monetary Union has been another drag on the region, which is now projected to contract by 0.4 percent in 2012. In addition, pre-crisis legacy issues, including high household debt following housing booms, have constrained private consumption, notably in Spain, Denmark and the United Kingdom.

Whilst the Euro Zone remains in crisis, Emerging and Developing Economies continue on a robust growth path, mainly on account of remarkable growth in the BRIC economies as shown in Table 1. In the Middle East and North Africa (MENA), growth was relatively subdued at 3.3 percent in 2011, but is projected to strengthen to 5.3 percent in 2012 on account of high oil prices. However, growth in the region is being weighed down by oil importing economies, which have suffered the effects of weak external demand and high oil prices.

Notwithstanding the crisis affecting other regions, Sub-Saharan Africa (SSA) is projected to continue on a favourable growth trajectory. The region is expected to continue growing strongly in the near term, with regional differences in prospects, partly reflecting the economies' varying exposure to external shocks. Economic activity in SSA has recorded annual growth of more than 5 percent over the past three years, continuing a decade-long run of strong performance that was briefly interrupted by the global downturn in 2009. Whilst most SSA economies are expected to do well, growth in South Africa is projected to be subdued, largely because of strong financial linkages with the crisis ridden Europe.

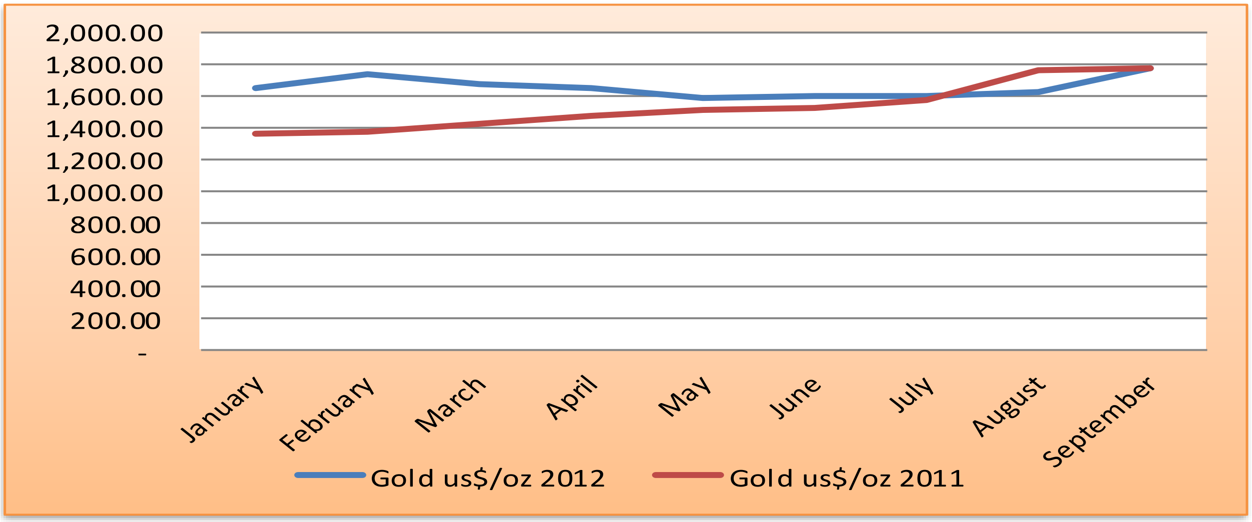
1.2 International Commodity Prices

The performance of commodity markets was closely related to the macroeconomic uncertainty, especially apprehension over the Euro-zone's sovereign debt crisis, signs of further deceleration in emerging and developing economies, as well as the weaker US economy during the third quarter of 2012. Several commodity prices, especially base metals, were affected by the fragile global economic situation, whilst high grain prices were sustained by supply tightness emerging from the severe drought in the US.

1.2.1 Gold Prices

The third quarter of 2012 was characterised by better performance of the precious metals, especially gold. The quarter started with gold prices demonstrating an unclear trend, especially during the month of July where prices started on a downward trend before rebounding to take an upward trend. The last two months of the quarter exhibited strengthening gold prices with the prices hitting the US$ 1 700 per ounce mark in September 2012. The Bullish performance of gold during the third quarter was mainly driven by market expectations, following the US Federal Reserve announcement in September of a third round of quantitative easing with an unlimited horizon of both time and amount. The Federal Reserve also highlighted that it would introduce additional monetary steps if the US economy would not show clear progress in the short-term and pledged to keep rates low until mid-2015. The other factors contributing to bullish performance of gold prices during the quarter included the growth in demand for gold in India, the world's biggest consumer, on account of the on-going festival and wedding season coupled with the appreciation of the Rupee; the decision of the Bank of Japan to expand its stimulus plan by 10 trillion yen; and also the expectations of the market from European Central Bank to introduce a bond purchase program targeting Spanish bonds. Figure 1 shows that gold performance for the period January to September 2012 was no better than the performance over the same period in 2011.

Figure 1: Gold Prices (US$/oz.): January to September 2012



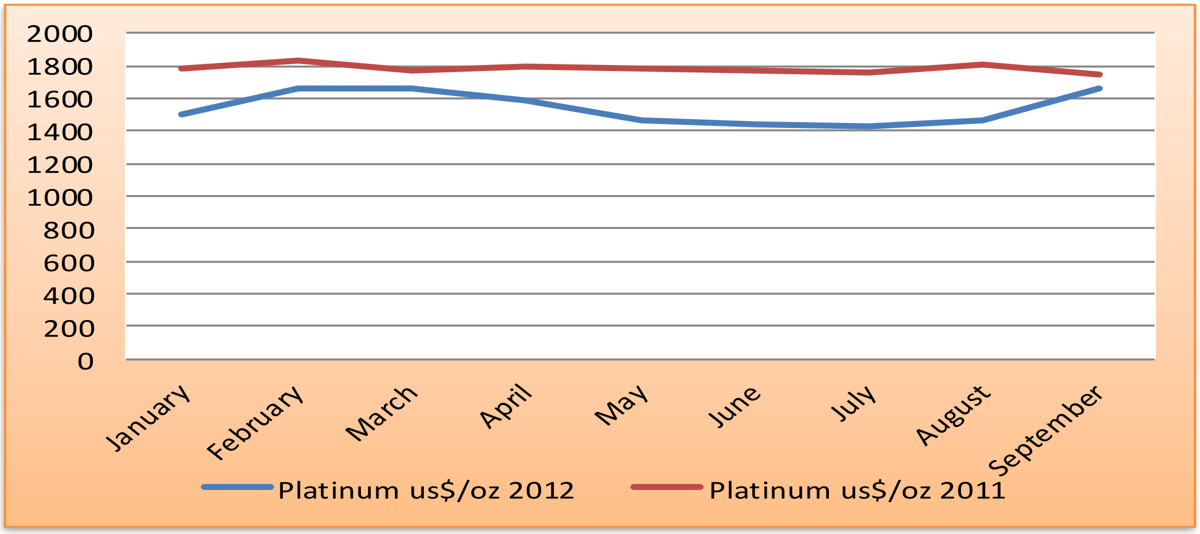
Source: Bloomberg, BBC and Reuters

1.2.2 Platinum

Market optimism in early July, boosted by interest rate cuts in China and the Euro Zone, helped platinum group metals prices recover from the down turn experienced during the last month of the second quarter. The gain was short-lived however, as the dollar strengthened and prices returned to a downward trend. Concerns over levels of Eurozone banking sector debt came to the fore again in July, resulting in strengthening of the Dollar against the Euro and depressing dollar-denominated commodity prices. The prices of platinum were weighed down by the combination of weak demand and oversupply in July. However, in September, platinum prices rallied to their highest level of US$1 696 per ounce, (Figure 2). This was mainly on account of supply shocks emanating from the labour conflicts at South African platinum mines, which impacted on world output.

Furthermore, announcement by the US Central Bank on a third and perpetual round of quantitative easing exerted pressure on platinum prices. The last weeks of September saw platinum shedding some of the gains it had attained during the month to close the quarter at US$1 665 per ounce which was higher than the opening price for the quarter. Compared to 2011, the performance of the Platinum prices this year was surpassed by the performance of last year, (figure 2).

Figure 2: Platinum Prices (US$/Oz) January to September 2012

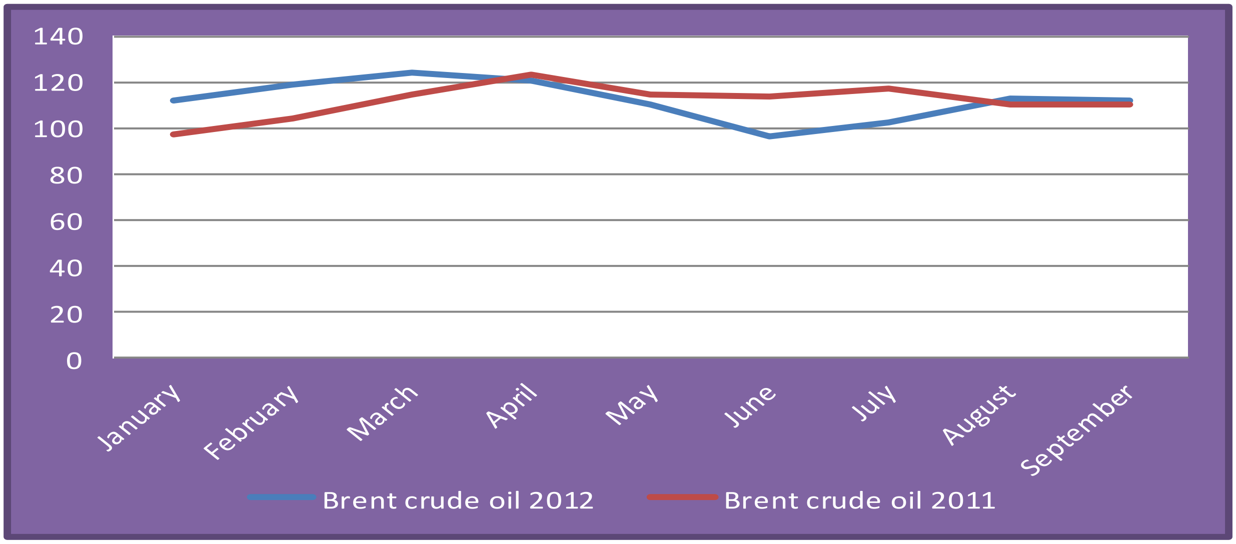


Source: Bloomberg, BBC and Reuters

1.2.3 Brent Crude Oil

Brent Crude oil prices managed to surpass the US$100 per barrel during the third quarter, reaching a high of US$117 per barrel in September 2012, (Figure 3). On average, the price of Brent crude oil was on an upward trend, though it showed a zigzag pattern going up and down throughout the quarter. Expectations that policymakers in the European Union (EU), the US and other emerging economies would provide additional economic stimulus to counteract slowing growth contributed to stronger performance in rising crude oil prices during the quarter. In addition, uncertainty over socio-political unrest in the Middle East contributed to rising crude oil prices.

Figure 3: Brent Crude Oil Prices (US$/barrel), January to September 2012



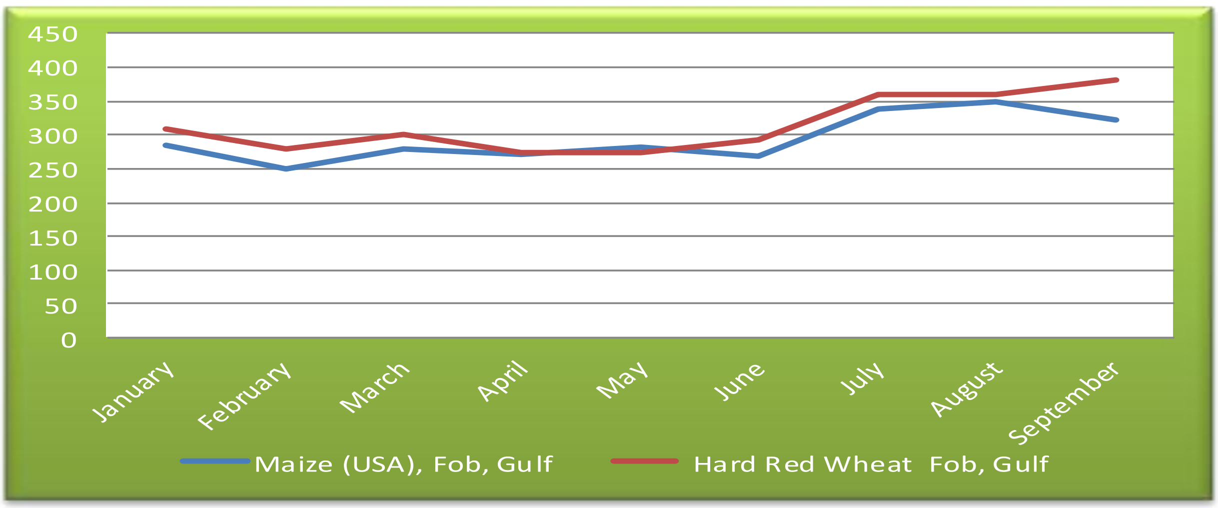
Source: Bloomberg, BBC and Reuters

The entry into force of both US financial sanctions on entities that pay for Iranian oil through the Central Bank of Iran and an EU ban on oil imports from Iran, recent threats by Iran to block oil from transiting the Strait of Hormuz, the possibility that Israel might act unilaterally against Iran's nuclear capabilities, and the continuing conflicts in the Middle East increased market anxiety, adding to upward price pressure in the third quarter.

1.2.4 Maize and Wheat

The 2012/13 outlook for maize production has worsened, especially in the US where high temperatures and severe drought reduced prospects for a better harvest leading to a rally in prices of maize.

Figure 4: Maize and Wheat Prices (US$/ Tonne), January to September 2012



Source: International Grain Council

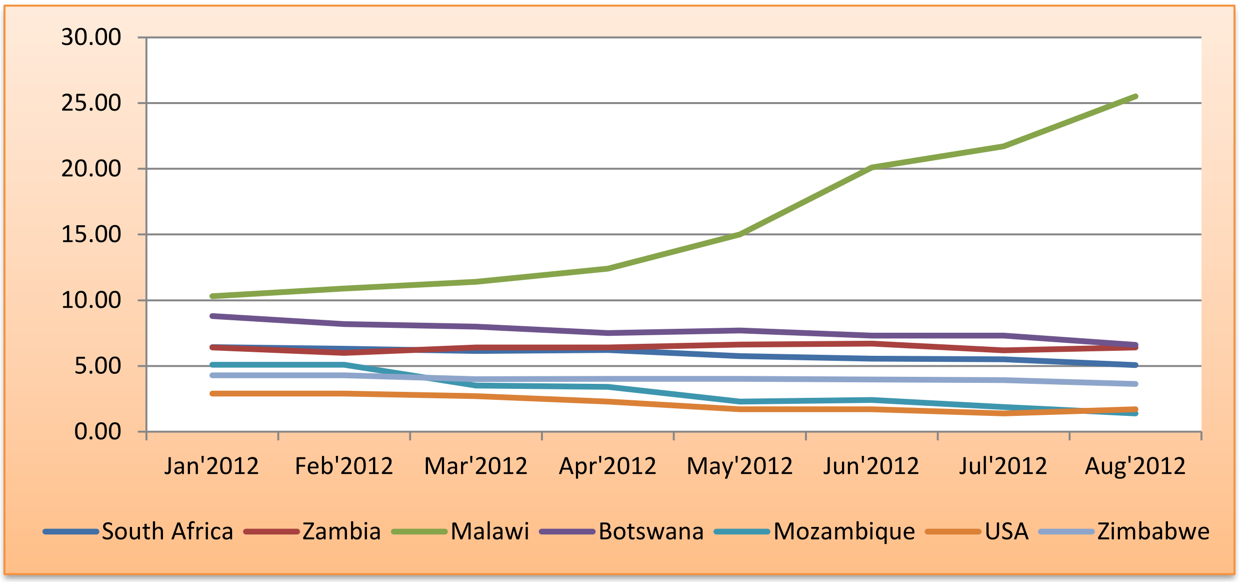
In July, maize prices soared to new highs averaging US$348 per tonne, on the back of deteriorating output prospects in the US following the worst drought since 1956. Unfavourable weather conditions have also led to a scaling back of grains output and exportable surpluses in the Black Sea region. The prices of wheat and maize further improved during August 2012 closing the month at US$337 per tonne and US$370 per tonne respectively,(Figure 4). This has been largely attributed to deteriorating crop prospects for maize in the US and wheat in Russia. Prices eased towards the end of August, following heavy rains in areas hardest hit by drought in the US and the announcement that Russia would not impose maize export restrictions. The price movements in September were a result of the concern over Black Sea region exports and the dry conditions in Australia.

1.3 Inflation Developments in the Southern African Development Community (SADC) Region

The inflation rates in the SADC region are generally on a decline. Mozambique has the lowest inflation rates, while Malawi has the highest rate. The Mozambique annual inflation dropped from 8.7 percent in August 2011 to 1.4 percent in August 2012. This decline in inflation has largely been attributed to the strengthening of the Metical against major currencies. The Bank of

Mozambique has projected annual inflation figure to close the year at below 4 percent down from their January projections of 5.6 percent. In Botswana, the annual inflation rate has dropped from 8.7 percent in August 2011 to 6.6 percent in August 2012. The major drivers for this decline have been the low food and transport inflation. However, inflation in Botswana is expected to rise before the end of October as local fuel price soar owing to the rising international fuel prices. In South Africa, the inflation rate has taken a nose dive as the Rand gained against major currencies thus suppressing the production cost. Malawi's annual inflation has remained high as shown in Figure 5, mainly on account of high food inflation in response to local fuel price pressures.

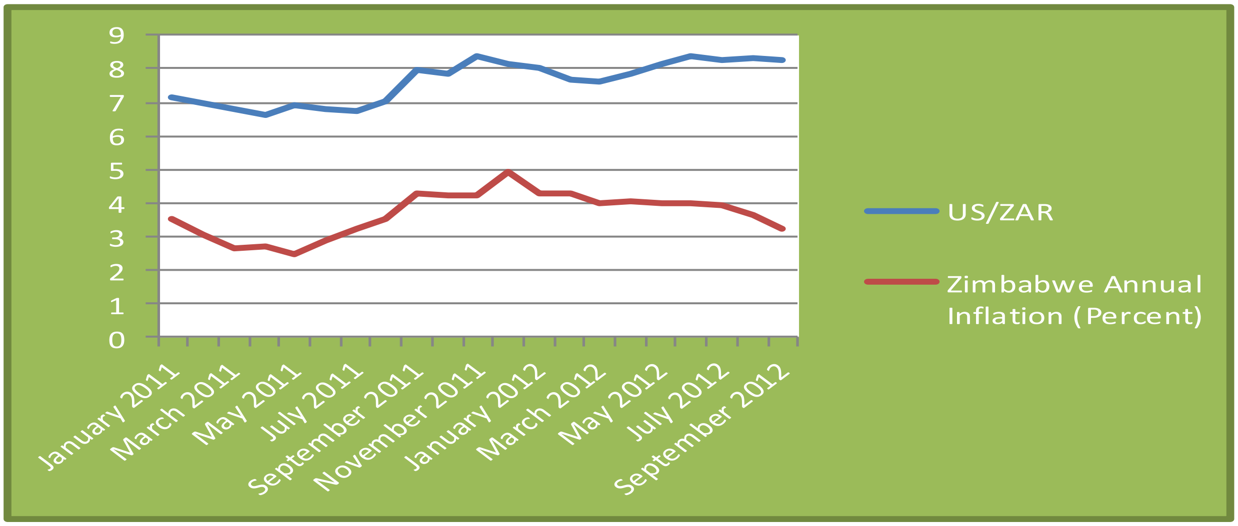
Figure 5: Inflation Rates for Selected SADC Countries and the USA



Source: ZIMSTAT, CSO-Zambia, RBSA, Bank of Botswana, Bloomberg

Inflation in Zimbabwe has remained within the Medium Term Plan target and the SADC macroeconomic convergence range of below 5 percent, despite the slight increase in annual inflation from 3.5 percent recorded in August 2011 to 3.6 percent in August 2012. The country's inflation trends are largely underpinned by the trends in the US$/ ZAR exchange rate.

Figure 6: US$/ZAR Exchange rate V the Zimbabwe's Inflation (Jan 2011-Sept 2012)



Source: RBZ

The over reliance of Zimbabwe on South African imports shows that the inflation rate in Zimbabwe has got a positive relationship with the South African exchange to the American dollar. This is reflected in figure 6 which shows the co-movement between Zimbabwe's inflation and the ZAR exchange rate for the period from January 2011 to March 2012. However, the correlation started weakening from March 2012, depicting the availability of other drivers of inflation in the country such as high and increasing rental prices on the back of low activity in the construction industry resulting in excess demand for existing accommodation.

2.0 MACROECONOMIC DEVELOPMENTS

2.1 Macroeconomic Overview

The Government revised the 2012 economic growth target downwards from 9.4 percent to 5.6 percent. Performance in sectors that include agriculture; tourism, distribution, hotels & restaurants and electricity & water was below projected levels. According to the Ministry of Finance, factors underpinning the slow-down in economic activity include a poor rain season; low investor confidence due to policy inconsistencies and uncertainty; Government revenue under-performance; corruption; lack of capital; limited capacity to monitor and implement programmes; slow pace of reforms and a volatile and fragile global economy.

In order to sustain the growth momentum in the economy, there is need to address the prevailing economic challenges. There is need to complement economic stability by boosting production in key sectors of the economy. In this regard, strategies to deal with power shortages, water challenges and limited credit lines, become critical.

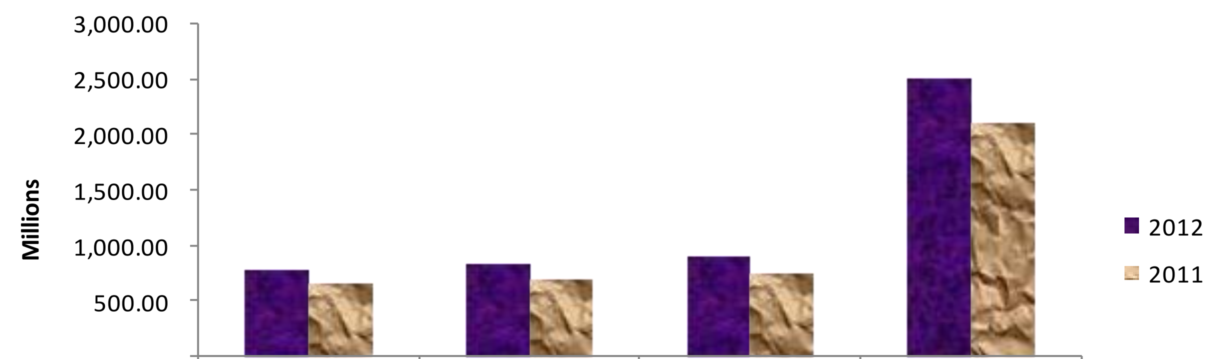
2.2 Fiscal Developments

2.2.1 Government Revenue Performance

On account of improved economic activity in 2012 compared to 2011, as well as enhanced revenue collections underpinned by increased compliance with the value added tax (VAT) fiscalised recording of taxable transactions, quarterly Government revenue outturn for 2012 has been higher than that of 2011, (Figure 7). The third quarter 2012 revenue outturn of US$902.33 million was 20.66 percent higher than the same quarter of 2011 of US$747.84 million. Similarly, cumulative revenues to September 2012 of US$2.50 billion were 19.04 percent higher than revenues for the same period to September 2011 of US$2.1 billion, (Figure 7).

This notwithstanding, revenue performance for 2012 continues to underperform, with cumulative revenues to September 2012 of US$2.5 billion, being 11.21 percent lower than the target of US$2.81 billion. This was mainly a result of underperformance of diamond dividends, which recorded a shortfall of US$229.3 million during the first half of 2012. There is, therefore, need for clear mechanisms in the 2013 National Budget aimed at increasing productivity and value addition at the same time improving transparency and accountability in the diamond sector.

Figure 7: Revenue Developments from January to August 2012 (US$ million)



	Q1	Q2	Q3	cum
2012	771,132,975.82	825,877,608.96	902,325,767.36	2,499,336,352.
2011	655,649,752.15	696,008,169.58	747,836,830.52	2,099,494,752.

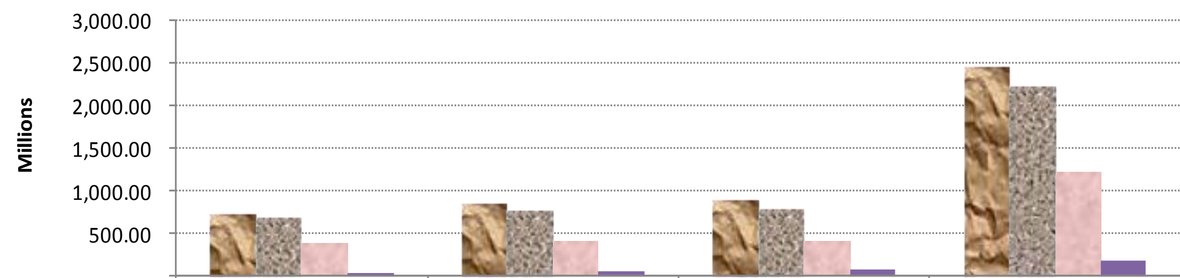
Source: Ministry of Finance

2.2.2 Expenditures Developments

Underperformance of revenues is seriously undermining Government's capacity to implement its public sector investment programmes. During the third quarter 2012, Government expenditures amounted to US$887.48 million against planned expenditures of US$976.94 million. Recurrent expenditures continue to dominate the total government budget, at the expense of growth enhancing capital projects. Cumulative recurrent expenditures to September 2012 amounted to US$2.22 billion accounting for 90.25 percent of total expenditures, with the remainder being capital expenditures, (Figure 8). A large share of the recurrent budget is being channelled towards the Government wage bill. Employment costs to September 2012 at US$1.21 billion accounted for 54.91 percent of recurrent expenditures and 49.55 percent of total expenditures.

This scenario is likely to remain in the short-to-medium term, unless Government moves in to rationalise the civil service, through the implementation of recommendations of the civil service audit report, which noted the need to eliminate a significant number of ghost workers from the payroll. This will assist in creating savings on the wage bill, and hence help build an expenditure mix that priorities growth-enhancing and non-wage expenditures. The savings on the wage bill could allow Government to improve service delivery in key areas such as water and sanitation; and social protection for the poor and vulnerable.

Figure 8: Expenditure Developments from January to August 2012 (US$ Millions)



	Q1	Q2	Q3	Cumm
Total Exp	721,210,929.73	853,260,038.58	887,476,532.26	2,461,947,500.57
Recurrent Exp	672,858,183.37	766,138,694.64	782,912,072.94	2,221,908,950.95
Employment Costs	394,107,939.73	412,106,992.06	413,740,464.21	1,219,955,396.00
Capital Exp	36,594,546.36	61,651,343.94	83,128,885.32	181,374,775.62

Total Exp Recurrent Exp Employment Costs Capital Exp

Source: Ministry of Finance

Overall, Government ran a cumulative surplus of US$37.39 million, which is key in creating a fiscal buffer that could help smoothen spending in the event of a shock on major revenue heads.

2.3 Manufacturing Sector Developments

During the period under review, Blue Ribbon Industries temporarily suspended operations at its maize and flour milling plants, citing working capital challenges. Blue Ribbon Industries is one of the leading players in the milling industry in Zimbabwe. In July 2012, another leading milling company, Victoria Foods, also found itself battling in court with its supplier; Dominion Trading, which wanted the company to be placed under provisional liquidation after failing to settle its debts. Victoria Foods is a subsidiary of the CFI Holdings Group, and the annual report of CFI Holdings for 2011 points out that Victoria Foods is challenged by inadequate and inconsistent grain supplies as well as inadequate working capital.

These two case studies just point out to the challenges that the grain milling industry, especially the flour milling industry, is experiencing. According to statistics produced by the Chairman of the Grain Millers Association, a body that represents all the milling companies in Zimbabwe, the milling industry has recorded some of the highest company closures in the country. For example, although there were about 310 players in the industry in 2008, the number had dropped to 18 in 2011. Thus, the benefits from the introduction of dollarisation and the economic stabilisation that followed have not benefited this industry much.

In the 2012 National Budget Statement, Government introduced customs duty on wheat flour at a modest rate of 5 percent, which became effective from 1 January 2012 to protect the flour milling industry from import competition. However, imports of wheat flour during the period January to April 2012 actually increased by 6 percent compared to the same period in 2011. Thus, the 2012 Mid-Year Fiscal Policy Review Statement raised the customs duty on wheat flour further from 5 percent to 20 percent with effect from August 2012. However, the baking industry would be partially exempt from the full cost of the tariff review by being allowed to continue to import 25 percent of their wheat flour requirements at 5 percent duty.

The fact that both Blue Ribbons and Victoria Foods continue to face challenges, despite the protectionist measures shows that the problem goes beyond the need for protection. The ability of the companies to respond to any incentives remains constrained by their own production challenges, which can largely be solved by re-tooling and significant investment to avoid pressurising the antiquated plant and machinery. Due to these production bottlenecks, there is always excess demand for flour, which has to be filled in through imports; hence increasing customs duty is likely to result in inflationary pressures.

It is therefore not surprising that in August 2012, the National Bakers' Association of Zimbabwe indicated that its members intended to increase the price of bread from US$1 per loaf to US$1.20 to absorb the rise in the cost of flour which was making the baking industry unviable. Since August was also the same month when the proposed measures took effect, it is apparent that the partial exemption allowing 25 percent of the flour requirements to be imported at 5 percent duty was proving inadequate to cover the pressure from imported inflation.

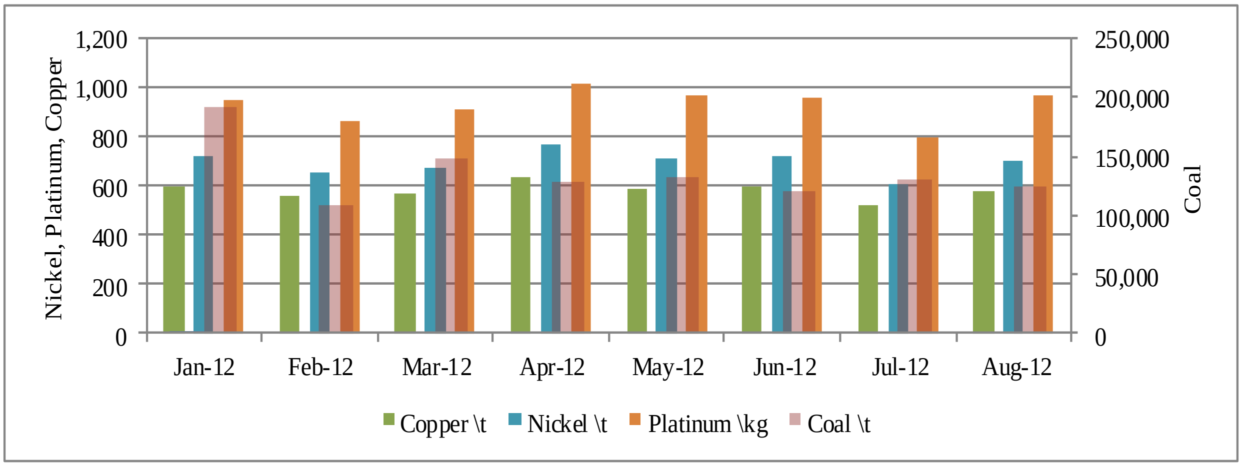
The implication is that the policy prescriptions in the Statement are not likely to succeed as they are not going to help in addressing the key challenges which generally hinge on lack of investment capacity. Customs duty would have helped if the local players had the necessary capacity to produce. Access to cheaper and long term lines of credit continues to be a challenge despite the improving liquidity position of the country. Thus, Government initiated schemes, similar to previous ones such as the Zimbabwe Economic and Trade Revival Fund and Distressed and Marginalised Area Fund (DiMAF), but specifically targeting the milling industry could help in unlocking funding for working capital.

2.4 Mining Sector Developments

The Zimbabwe Mining Indaba was held in Harare on 12-14 September 2012 at the Harare International Conference Centre under the theme 'Improving Mining through continuous Dialogue, Infrastructure and Financing'. The main purpose of the Indaba was to identify investment opportunities and review developments in the mining sector in Zimbabwe. The forum also afforded players in the industry an opportunity to network with other global stakeholders. Speakers at the forum noted that the country's mineral resources remain largely untapped and there is need to commit large sums of money and invest in modern technologies for the country to reap full benefits from the mining sector.

From January to August 2012, there was a lacklustre performance of mineral production. Coal production grew by -3.16 percent to a cumulative figure of 830 646.00 tonnes worth US$53.48 million. Copper production also grew by -0.05 percent to 3557.12 tonnes worth US$27.71 million. Nickel and platinum grew by 0.21 percent and 0.89 percent to register cumulative figures of 4253.36 tonnes and 5671.00 kilograms worth US$81.19 million and US$325.04 million, respectively, (Figure 9).

Figure 9: Mineral Production January to August 2012



Source: Chamber of Mines, 2012

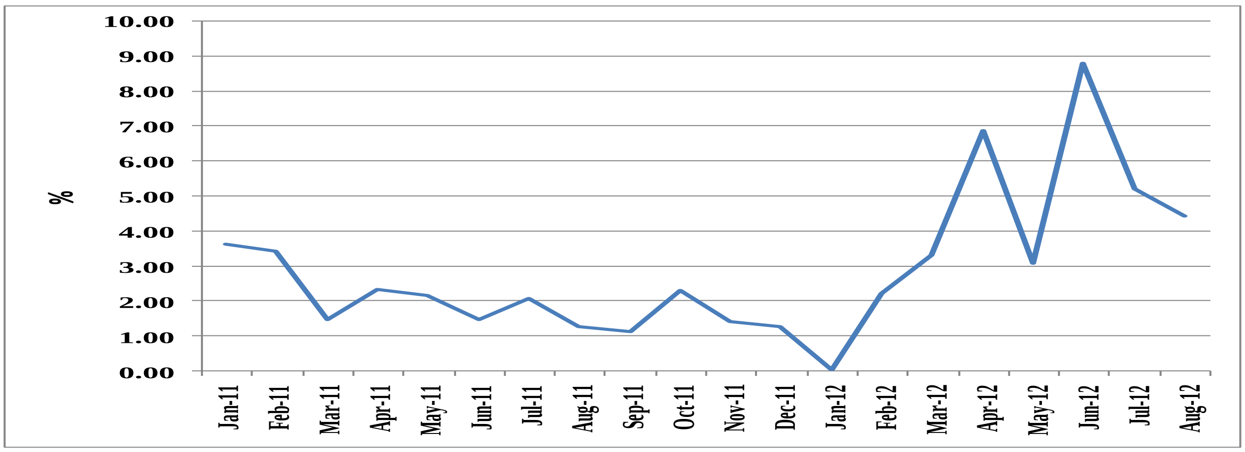
The production of nickel is expected to be boosted by the reopening of Trojan mine. Bindura Nickel Corporation (BNC) expects to begin selling its first nickel concentrate in March 2013 after a successful rights issue and reaching a settlement with its creditors through a debt-equity swap. The company has reached an agreement with Glencore International for the sale of nickel concentrate. The restart of the mine is expected to boost the country’s revenue generation potential and at the same time create employment in Bindura and its surrounding areas. However, BNC noted that it needs additional funding amounting toUS$25 million in the next 12 months to provide sufficient working capital.

On platinum, the Zimbabwe Platinum Mines (ZimPlats) indicated that its US$460 million expansion programme scheduled to be completed in 2015 may be delayed due to cash constraints as a result of weak global platinum prices. The platinum mining firm highlighted that to date it has spent US$223 million and is still to commit a further US$332 million for the completion of the project. ZimPlats was also ordered by the Zimbabwe Revenue Authority (ZIMRA) to pay U$33.8 million in taxes from 2007 to date since the concession granted by government in 2001 has not been made into law. This, according to ZIMRA means that the firm was not entitled to such exemptions. The revised tax assessment is likely to put pressure on ZimPlats cash flow thus putting at risk the full implementation of its phase two expansion project.

Cumulative royalties for August 2012 stood at US$88,821,513.80, against a target of US$100,920,220.00 resulting in a variance of -11.99 percent. The share of royalties to tax revenue rose from 0 - 4 percent in 2011 to 2 - 9 percent in February to August 2012. The sharp increase in the share of royalties in tax revenue is mainly attributed to the increase in royalty fees that came into effect in January 2012. However, charging high rates of royalties is not recommended since they sterilise resources that could have been exploited.

On mining taxation, a regional comparison of royalty rates reveals that royalties in Zimbabwe are now the highest in Southern Africa. The country's royalty rate for diamonds is 15 percent, compared to 5 percent and 10 percent in Tanzania and Mozambique, respectively. On precious metals, the country charges 10 percent royalty on platinum and 4 percent on other precious metals. Mozambique also charges 10 percent on precious metals whereas Angola, Namibia and Zambia charges 5 percent. However, most countries favour royalties since they do have the advantage of being less liable to tax evasion, particularly transfer pricing, than taxes on surplus produced which are susceptible to over-invoicing of costs.

Figure 10: Royalties' performance January –August 2012



Source: Ministry of Finance, 2012

2.5 Agriculture Sector Developments

Tobacco Selling Season Closes

The 2012 tobacco selling season saw an improvement in total tobacco deliveries. Total quantity delivered increased by 9.14 percent from 132.4 million kilograms in 2011 to 144.5 million kilograms delivered in 2012 as shown in Table 2. This is an indication of a huge improvement in the sector resulting from more farmers joining the only commercial crop that has been viable over the years. The selling season witnessed a 45 percent improvement in the average price from US$2.73 in 2011 to US$3.65 per kilogramme. In terms of value, the total value of tobacco sold in 2012 increased by 46 percent to US$527.6 million from US$361.4 million sold in 2011. Total bales rejected for the season also declined by 21 percent, an indication of an improvement in tobacco handling especially by the new entrants into the sector over the years.

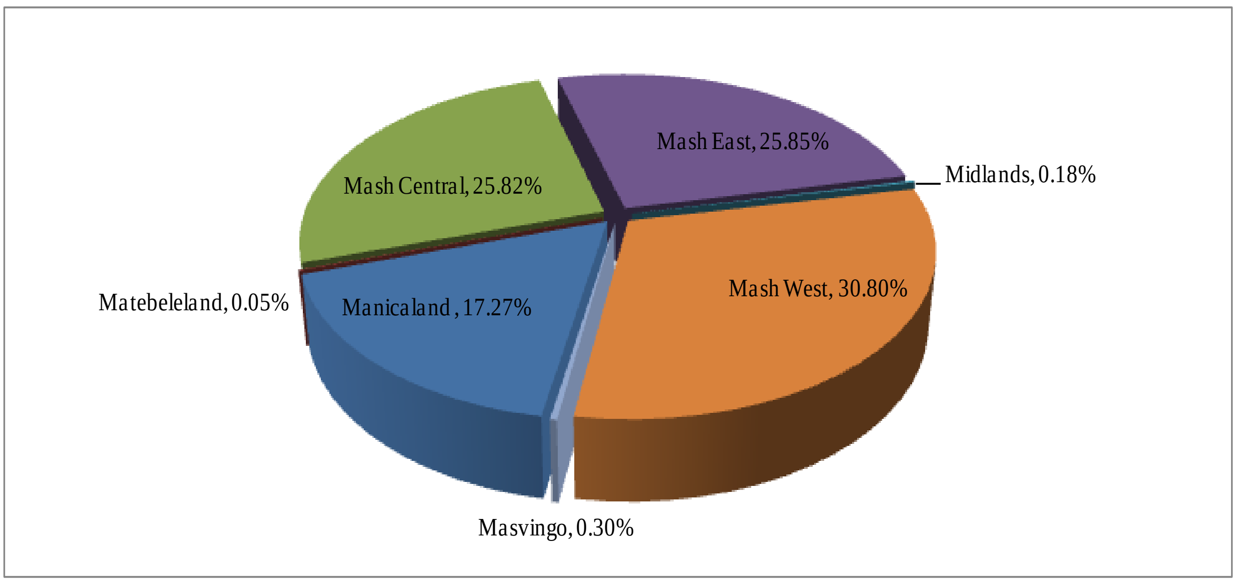
Table 2: 2012 Tobacco Selling Season

SEASONAL	TSF	BTF	MTF	PTF	TOT AUCTION	TOT CONTRACT	TOTAL 2012	TOTAL 2011	% Change
Mass sold (kg)	17,821,451	15,412,680	9,179,204	9,679,610	52,092,945	92,412,189	**144,505,134**	**132,404,271**	9.14
Value (US$)	63,060,815	53,496,687	32,481,314	34,378,495	183,417,310	344,149,798	**527,567,108**	**361,411,007**	45.97
Avg. price US$/ kg	3.54	3.47	3.54	3.55	3.52	3.72	**3.65**	**2.73**	33.75
Rejected percent	9.77	7.46	7.92	10.71	8.93	2.94	**5.51**	**7.00**	-21.29
Bales laid	264,733	234,329	135,848	147,823	782,733	1,042,000	**1,824,733**	**1,702,567**	15.24
Bales Sold	238,871	216,842	125,095	131,990	712,798	1,011,379	**1,724,177**	**1,583,372**	1.27
Rejected Bales	25,862	17,487	10,753	15,833	52,448	30,621	**83,069**	**119,195**	14

Source: TIMB

For the 2012 selling season, the bulk of the crop came from the three Mashonaland Provinces, led by Mashonaland West (30.8 percent), Mashonaland Central (25.82 percent) and Mashonaland East (25.85 percent). Although, Mashonaland West Province excelled in terms of total supplies to the market, the figure was a decline from 34 percent recorded in 2011. Midlands and Matebeleland were the least with 0.18 percentand 0.05 percent respectively, attributed to their naturally dry weather patterns (Figure 11).

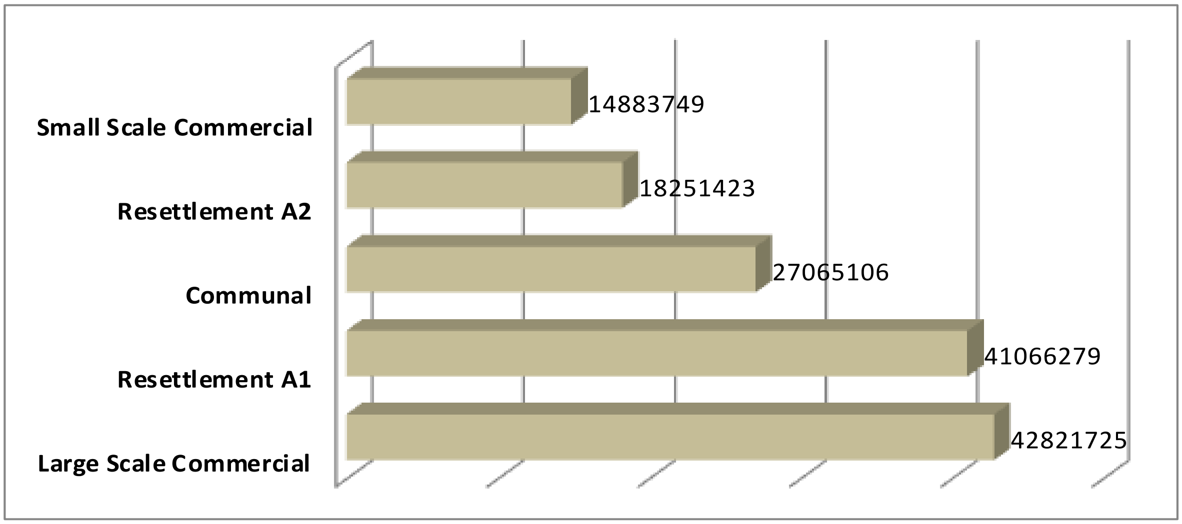
Figure 11: Geographical Source of Tobacco, 2012 Selling Season



Source: TIMB, 2012

Large scale commercial farmers dominated the bulk of the mass sold during the 2012 selling season, contributing 42.8 million kg of the crop. More encouraging is the resettled A1 farmers who sold 41.1 million kg of the crop, an indication of the huge potential that is embedded in this class of farmers to grow into a formidable force in tobacco growing. Figure 12 summarises the 2012 seasonal mass sold by grower class.

Figure 12: 2012 Seasonal Mass Sold By Grower Class (kg)



Source: TIMB

The 2012/2013 tobacco planting season for irrigated tobacco began on the 1st of September, with the total seed sales standing at 807, 751 grams having been sold by the country's two major seed suppliers, the Tobacco Research Board and the Zimbabwe Tobacco Seed Association. Table 3 gives a summary of seed sales statistics for the 2012/2013 season.

Table 3: Tobacco Seeds Sales for the 2012/13 Cropping Season

Company	Tobacco type	As at 07/09/12	Hectares	As at 09/09/11	Hectares	percent Change
ZTSA	Burley	5,660		25		
TRB	Burley	180		2980		
	Total BU (g)	5,840	973.3	3,005	500.8	**94.3**
ZTSA	Flue-cured	209,556		195,310		
TRB	Flue-cured	598,195		453,695		
	Total FC (g)	**807,751**	**134,625.20**	**649,005**	**108,167.50**	**24.5**

Source: TIMB

2.6 Banking and other Financial Sector Developments

2.6.1 Overview of the Banking Sector

On the 27th of July 2012, Royal Bank surrendered its banking license to the RBZ. This development raised concerns in the banking sector. This followed Royal Bank's failure to meet the minimum capital requirement of US$12.5 million for commercial banks. The RBZ determined that the bank was no longer safe and sound. According to the RBZ, the closure of Royal Bank would have insignificant systemic risk because of its negligible market share in terms of loans and advances, deposits and capitalization. However, a bank closure, despite the small size of the bank, has dampening effects on depositor confidence, negative effects on efforts towards the mobilisation of savings in the formal banking sector and may lead to deposit flight from small and weak banks to big and stable banks.

In the 2012 Mid-Term Monetary Policy Statement that was presented on the 31st of July 2012, the RBZ increased the minimum capital requirements for financial institutions (Table 4). Financial institutions are expected to fully comply with the minimum capital requirements by the 30th of June 2014. The RBZ gave financial institutions up to the 30th of September 2012 to submit proposals on how they plan to comply with the revised minimum capital requirements. According to the RBZ, the increase in the minimum capital requirements was necessitated by the dynamic financial landscape; regulatory requirements; increased competition and economic uncertainty, which requires banks to be adequately capitalised. Despite concerns from some sectors of the economy that the new minimum capital requirements were too high, these were approved by the Cabinet of Zimbabwe on the 7th of August 2012.

Table 4: Revised Minimum Capital Requirements

Category of Institution	**Previous Minimum Capital Requirement (US$ million)**	**Revised Minimum Capital Requirement (US$ million)**	**Implementation Timelines & Level of Capitalisation to be Complied with (US$ million)**			
			31 Dec 2012	**30 Jun 2013**	**31 Dec 2013**	**30 Jun 2014**
Commercial Banks	12.5	100	25	50	75	100
Merchant Banks	10	100	25	50	75	100
Building Societies	10	80	20	40	60	80
Finance & Discount Houses	7.5	60	15	30	45	60
Micro-Finance Banks	1	5	1.75	2.5	3.25	5

Source: Reserve Bank of Zimbabwe

The new minimum capital requirements are likely to create larger and stable banks that have potential to withstand adverse internal and external shocks, and thus build more stable and resilient domestic banks. However, given the prevailing economic conditions in which some of the weak and small banks have faced difficulties in meeting the requirements before, the increase may likely cause challenges for such banks. The challenges may result in deposit flight from small and weak banks to big and strong banks. For small and weak banks, the increase calls for more innovative survival strategies.

To avoid such challenges, the RBZ suggested mergers and/or acquisitions of small and weaker banks with/by bigger and stable banks. While this is plausible, there are challenges associated with these strategies. These include creation of fewer larger banks that may promote uncompetitive behaviour in the market; difficulties in reconciling different organisational structures and business models as well as the likely laying-off of employees, among others.

Raising new capital from the current shareholders or strategic partners may be another strategy of meeting the new capital requirements. However, for some of the banks, this may be costly and difficult in an environment characterised by weak investor confidence; policy inconsistencies; high levels of non-performing loans (12.3 percent as at June 2012); poor corporate governance and uncertainty surrounding the implementation of indigenisation and economic empowerment policy.

Increasing retained earnings could be another option of meeting the minimum capital requirements. A possible challenge associated with this is the likely lower profitability due to depressed economic activity. Cutting down on loan advances as another strategy for meeting new capital requirements would impact negatively on the growth of the real economy.

In setting the new requirements, there was need for the authorities to consider the different types of banks, big and strong versus small and weak banks or foreign versus indigenous banks. Such a consideration would ensure that no banks would be disadvantaged. Zambia is one such country where they have differentiation in capital requirement thresholds for foreign big banks and small indigenous banks. In the Zambian case, foreign banks have a higher threshold level than indigenous small banks.

2.6.2 Mobilization of Savings

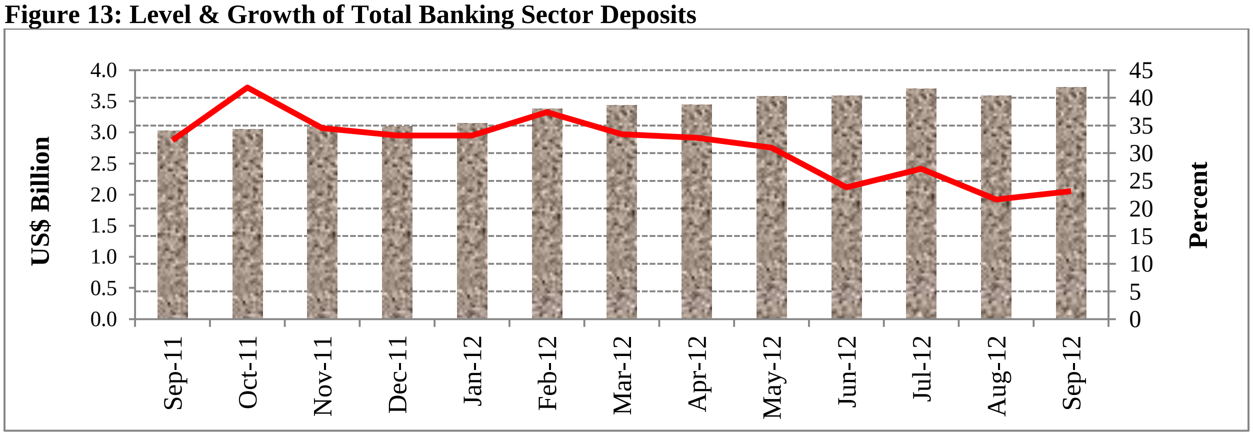
To mobilize more savings, some banks have introduced products whose features include zero withdrawal and maintenance charges and low initial deposits, among others. Despite such efforts, savings mobilization continues to face some challenges. These include low average incomes and weak depositor confidence. Recent public reports in which some individuals have been found with huge sums of cash suggest that there is still a significant amount of money circulating outside the formal banking sector.

Mobilization of savings could be enhanced through more attractive deposit rates; improved depositor confidence; improved corporate governance; public financial literacy on saving instruments; guaranteed protection of depositors' funds and policy consistency, among others.

2.6.3 Banking Sector Deposits

Total banking sector deposits (net inter-bank deposits), which stood at US$3.70 billion in July 2012, declined to US$3.59 billion in August but improved to US$3.73 billion in September (Figure 13). However, the growth rate in deposits has remained sluggish. This is reflective of prevailing challenges in the economy. These include low disposable incomes, weak depositor confidence; uncertainty surrounding indigenisation of banks and political uncertainty.

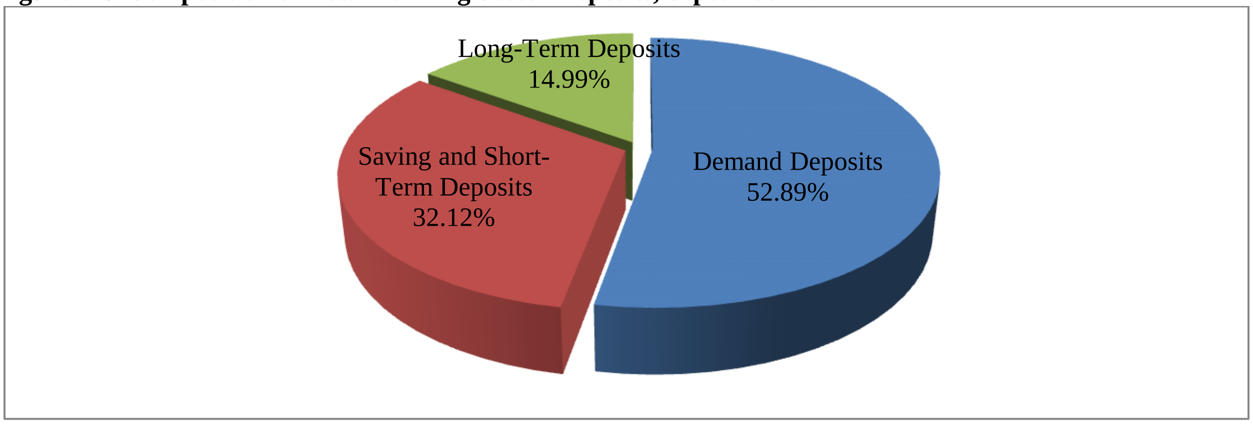
Figure 13: Level & Growth of Total Banking Sector Deposits



Source: RBZ Monthly Economic Review, September 2012

As shown in Figure 14, as of September 2012, the composition of total bank deposits was demand deposits (52.89 percent); saving and short-term deposits (32.13 percent) and long-term deposits (14.99 percent).

Figure 14: Composition of Total Banking Sector Deposits, September 2012



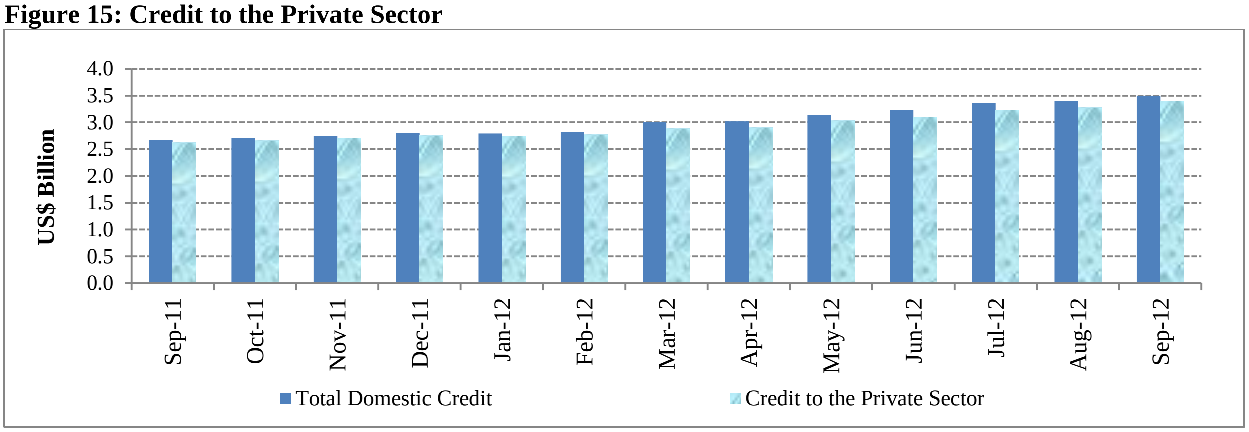
Source: Monthly Economic Review, September 2012

The bulk of total bank deposits are short-term and transitory, which makes their support restricted to industries with a short cash cycle such as distribution. Short-term and transitory deposits are less supportive of long-term investment needed for agriculture, manufacturing, mining and other real sector industries. For long-term investments, other financing options have to be explored, including the deepening of capital markets such as the Zimbabwe Stock Exchange (ZSE), bond markets, equity financing through venture capital, joint ventures and syndicated financing among others.

2.6.4 Bank Credit to the Private Sector

In the third quarter of 2012, credit to the private sector averaged 96.2 percent of total domestic credit compared to 96.1 percent in the second quarter (Figure 15).

Figure 15: Credit to the Private Sector



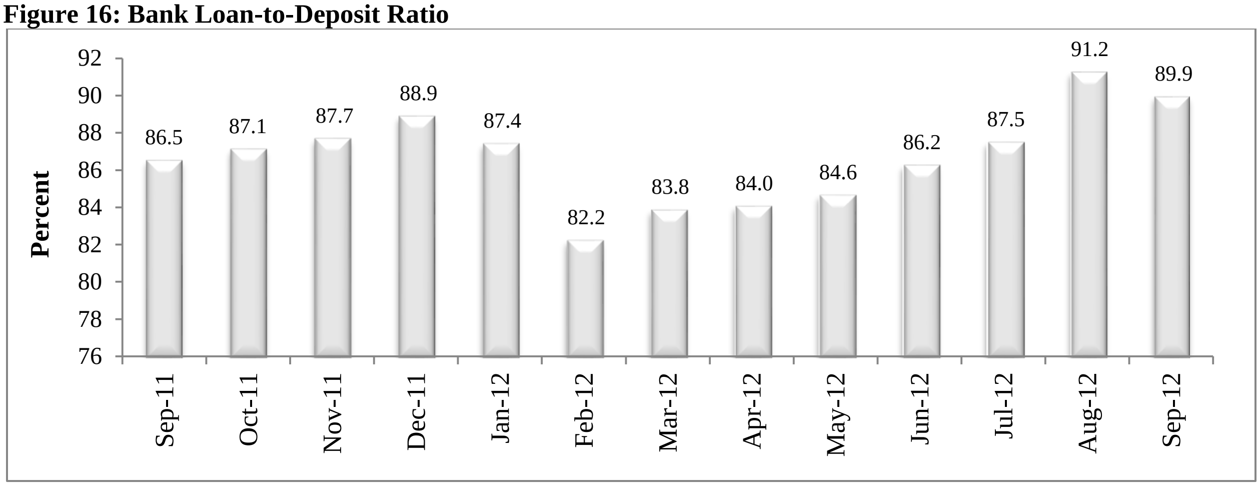
Source: Monthly Economic Review, September 2012

The figures suggest increasing bank lending to the private sector, which is favourable in a recovering economy. Fundamentally, the policy intentions outlined in the Medium Term Plan (MTP) and the Industrial Policy Document that the private sector should be the engine of growth should be supported by increased credit to the private sector.

2.6.5 Bank Loan-to-Deposit Ratio

The loan-to-deposit ratio (calculated on the basis of total banking sector deposits and including domestic and external lines of credit) averaged 89.5 percent in the third quarter of 2012, from 85.0 percent in the second quarter. To sustain the high levels in lending in the economy, there is need to boost deposit mobilization, failure of which may lead to a cut down on lending, which is unfavourable for the productive sectors of the economy.

Figure 16: Bank Loan-to-Deposit Ratio



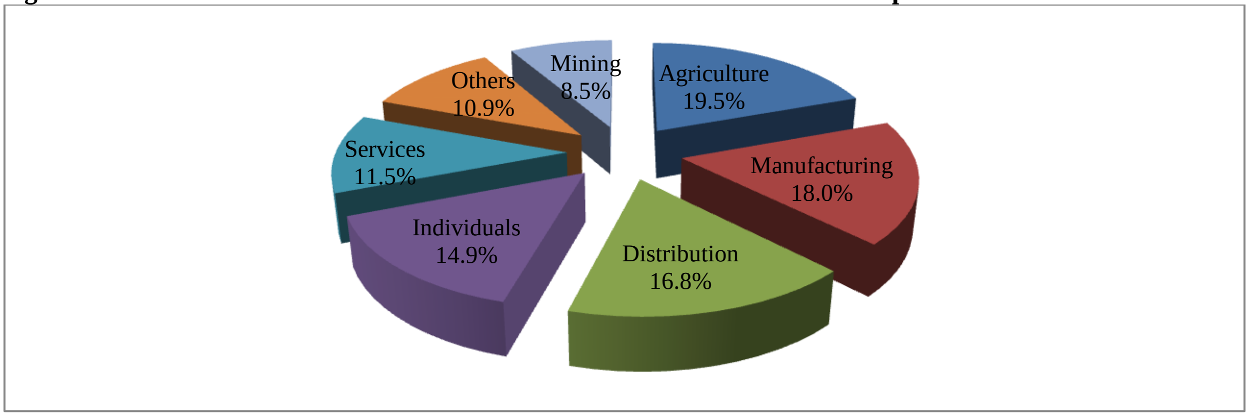
Source: Reserve Bank Zimbabwe, September 2012

The prevailing loan-to-deposit ratios (Figure 16), given the high levels of non-performing loans (12.3 percent as at June 2012), could be considered too high. Reasons for the high level of non-performing loans include over-borrowing; related party lending; low borrower profitability; poor assessment of credit worthiness and high lending rates. In this regard, the development of a Credit Reference Bureau could assist reduce some of these challenges.

2.6.6 Composition of Private Sector Credit in September 2012

The bulk of private sector credit constitutes loans and advances (86.1 percent). Commercial bank loans and advances in September 2012 were distributed as follows (Figure 17): agriculture (19.5 percent); manufacturing (18.0 percent); distribution (16.8 percent); individuals (14.9 percent); services (11.5 percent); other sectors (10.9 percent) and mining (8.5 percent).

Figure 17: Sectoral Distribution of Commercial Bank Loans & Advances in September 2012



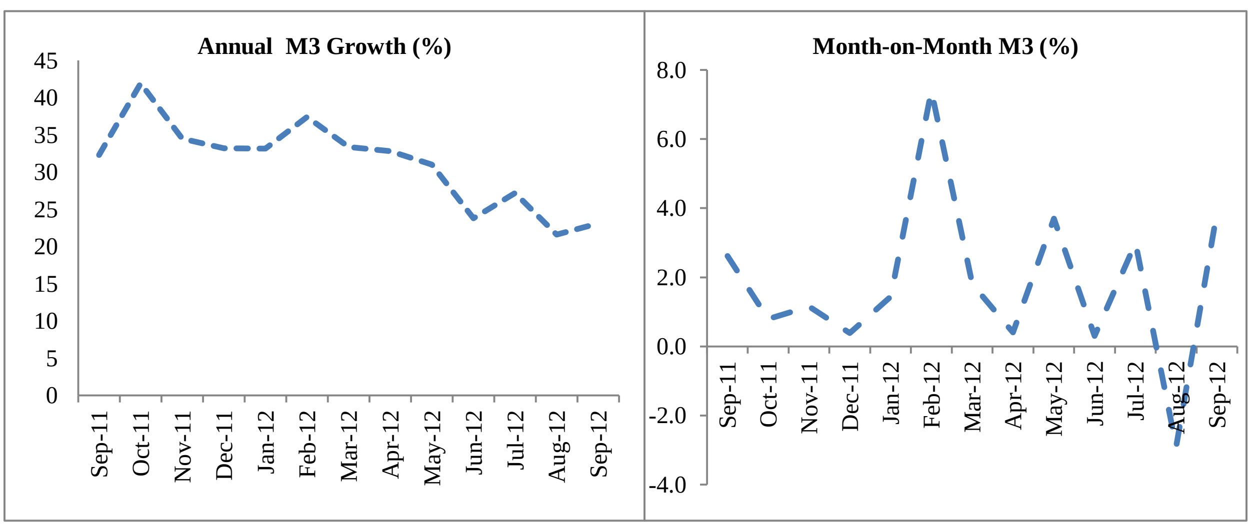
Source: RBZ Monthly Economic Review, September 2012

Of concern is the increase in loans and advances extended to individuals, which are mainly salary-based. These loans are mainly utilized for consumer durables. It is advisable for banks to prioritize productive sectors by making lending conditions more favourable to the real sector as opposed to individuals who borrow for consumption purposes. Individuals should be encouraged to save until they raise the required amounts to make such purchases. In this case, savings may be increased and made available for investment purposes in productive sectors.

2.6.7 Money Supply Developments

The growth in annual broad money supply (M3), defined as total banking sector deposits (net of inter-bank deposits), declined from 32.3 percent in September 2011 to 23.1 percent in September 2012 (Figure 18). Month-on-month M3 growth increased significantly from -2.9 percent in August 2012 to 3.9 percent in September 2012.

Figure 18: Broad Money Supply (M3) Growth



Source: RBZ Monthly Economic Review, September 2012

Given the increasing demand for credit in the economy, there is a need to intensify deposit mobilization and to secure external lines of credit. Deposit levels have effects on lending and cash availability in the economy, pointing to the need for enhanced strategies to mobilize deposits and the implementation of the debt and arrears clearance strategy in order to attract new capital in an economy starved of capital.

2.6.8 Interest Rate Developments

The figures (Table 5) show a wide range in quoted nominal lending rates, 6.00-35.00 percent for commercial banks and 15.00-30.00 percent for merchant banks. This could be reflective of the wide differences in bank cost structures, profit margins, borrower risk profiles and differential rates of lines of credit accessed by banks for on-lending in the domestic market. This gap likely reflects the huge differences in capacity between large and strong banks, and small and weak banks in attracting cheap capital. These differences imply that most policy measures (e.g. minimum capital requirements) applied in the banking sector would always have huge and varying impact, depending on the type and size of banks.

Average weighted lending rates for both commercial and merchant banks are lower for corporates than for individuals. This suggests preferential treatment in favour of corporates, which is favourable because individuals mostly borrow for non-productive purposes.

Table 5: Interest Rate Levels (Percent per Annum)

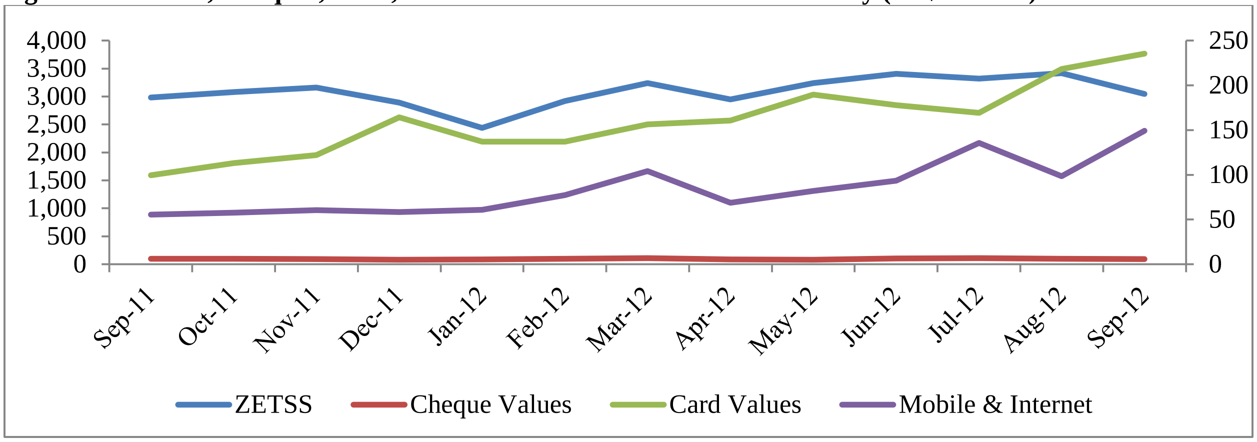
End Period	Commercial Banks lending Rates			Merchant Banks Lending Rates			3-Month Deposit Rates	Savings Deposit Rates
	Nominal	Weighted Average		Nominal	Weighted Average			
		Individuals	Corporates		Individuals	Corporates		
Mar-12	8.00-30.00	16.04	12.53	14.00-35.00	18.17	13.26	5-20.00	0-12.00
Apr-12	8.00-30.00	15.00	13.06	13.00-25.00	18.37	16.36	5-20.00	0-12.00
May-12	6.00-30.00	14.98	11.86	15.00-30.00	15.78	14.47	5-20.00	0-12.00
Jun-12	6.00-35.00	13.81	11.58	15.00-30.00	17.86	14.04	5-20.00	0-12.00
Jul-12	6.00-35.00	14.32	10.88	15.00-30.00	17.92	13.93	5-20.00	0-12.00
Aug-12	6.00-35.00	15.65	10.74	15.00-30.00	17.94	13.95	5.20.00	0-12.00
Sep-12	6.00-35.00	13.25	11.14	15.00-30.00	17.98	13.92	5-20.00	0-12.00
Average		**14.72**	**11.68**		**17.72**	**14.28**		

Source: RBZ Monthly Economic Review, September 2012

Deposit rates have remained constant at their second quarter average levels of 10.1 percent and 6.0 percent for 3-month deposits and savings deposits, respectively. This outcome suggests that there is still need to encourage banks to increase efforts to mobilise savings and increase the capacity of economic agents to save. More savings will avail more resources for investment, especially capital/infrastructural investment, which should underpin economic recovery.

There is a wide range in the quoted rates (5-20 percent and 0-20 percent for the 3-month deposit and savings deposit rates). The wide range reflects the huge gap in the capacity of the different banks to reward depositors and savers.

Figure 19: ZETSS, Cheques, Card, Mobile and Internet Transaction Activity (US$ Million)



Source: RBZ Monthly Economic Review, September 2012

The figures show growth in electronic (ZETSS, card values, mobile and internet), transactions which is commendable because it reduces risk associated with handling cash, eases cash shortages faced by some banks and challenges of change in the retail industry (Figure19).

2.6.9 Other Financial Sector Developments and Innovations

According to the Securities Exchange Commission of Zimbabwe (SECZ), demutualisation process of the ZSE is on course. A financial consultant was hired to facilitate the process. It is expected that demutualisation would reduce conflict of interest by separating ownership, trading rights and management of the exchange; makes it easier to raise capital and to quicken decision-making, among other things. For demutualization to be successful there is need for policy consistency, funding, macroeconomic stability to uphold investor and issuer confidence and a large investor base that ensures financial viability of the demutualised exchange.

Brainwork's Capital Management Limited is understood to have applied for a license to establish a stock exchange (Harare Stock Exchange). The Ministry of Youth Development, Indigenisation and Empowerment has announced its plans to establish an Indigenisation Stock Exchange. The Ministry of State Enterprises and Parastatals has also announced its plans to establish an equities market for parastatals.

These developments suggest that the ZSE is not flexible enough to accommodate the interests of the different stakeholders. However, a proliferation of stock markets under tight liquidity conditions is not advisable as it may lead to viability challenges. In addition, a low investor base such as is currently obtaining in the country due to low average incomes may not support all these planned stock exchanges. In this regard, there is need to recapitalize the existing stock exchange while focusing on the new ideas.

2.7 Stock Market Developments

The overall performance of the Zimbabwe Stock Market exhibited some mixed trends. Total turnover value and volume recorded declined by US$28.4 million and 464.5 million shares respectively in Q3 2012 compared to Q3 2011.This reduction in activity may be emanating from investors developing a negative attitude towards the stock market, especially on the back of indigenisation fears, and taking hedge positions in other sectors that were doing relatively well in 2012, especially the real estate sector.

However, there were some encouraging signs on the foreign front. Q3 2012 saw an increase in the value of US$11.3 million for foreign purchases to US$54.9 million from US$43.5 million recorded in Q3 2011. There was also a sharp decline in foreign sales by US$17.4 million over the two comparable periods. These developments are a sign of an improvement in the confidence in the Zimbabwean economy by foreigners.

Table 6: ZSE Summary Statistics for 3rd Quarter, 2011 and 2012

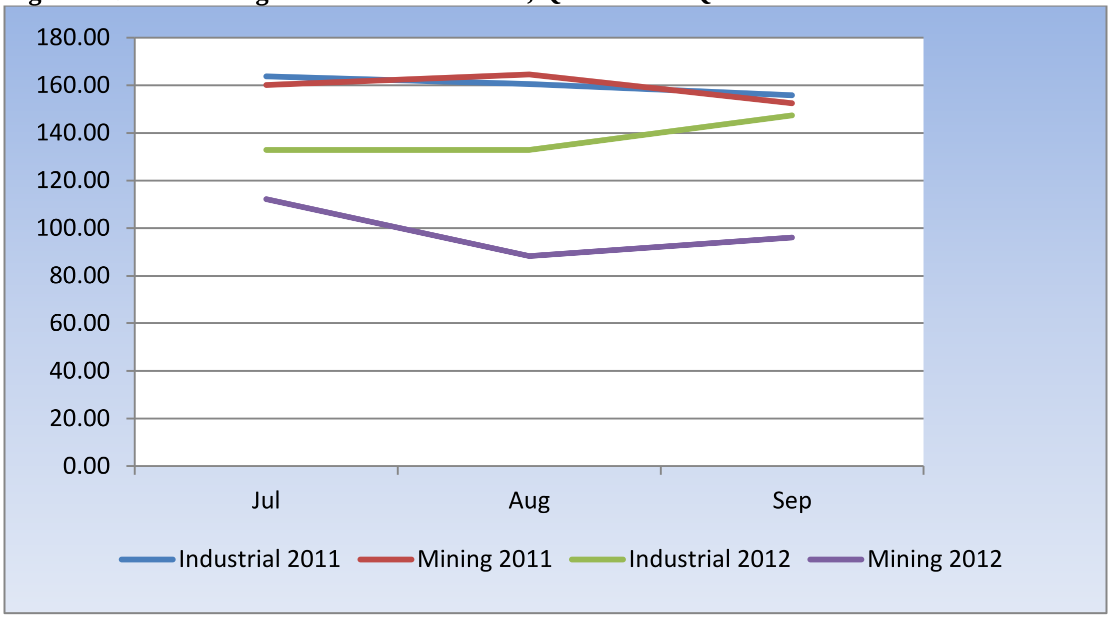
	Turnover Value (U$$)	Turnover Volume	Foreign Bought (US$)	Foreign Sold (US$)	Foreign No of shares bought	Foreign No of Shares sold
Total Q3 2012	100,322,545.00	777,553,725.00	54,882,261.60	27,741,430.59	272,626,590.00	291,337,699.00
Total Q3 2011	128,672,959.19	1,242,046,283.00	43,540,439.35	45,156,711.17	148,485,168.00	159,771,027.00
Net (Q3 2012- Q3 2011)	**(28,350,414.19)**	**(464,492,558.00)**	**11,341,822.25**	**(17,415,280.58)**	**124,141,422.00**	**131,566,672.00**

Source: ZSE, 2012

Total market capitalisation closed the 3rd quarter of 2012 US$133.1 million higher at US$3.82 billion from US$3.69 billion in the 3rd quarter of 2011. This is however, still lower than the US$4.2 billion recorded in June 2011.

Both the industrial and mining indices trended low in Q3 2012 compared to the same period in 2011, (Figure 20). This could be a result of the accumulated and delayed effect of the implementation of the indigenisation policy, mainly in the mining sector, as well as the talk of indigenisation which dominated the headlines the whole of 2011. The recovery in the indices in August 2012 could be a result of the clarity that elections will only be taking place in 2013, a development which has seen some bearish investors taking their chances on the stock market.

Figure 20: ZSE Mining and Industrial Indices, Q3 2011 and Q3 2012

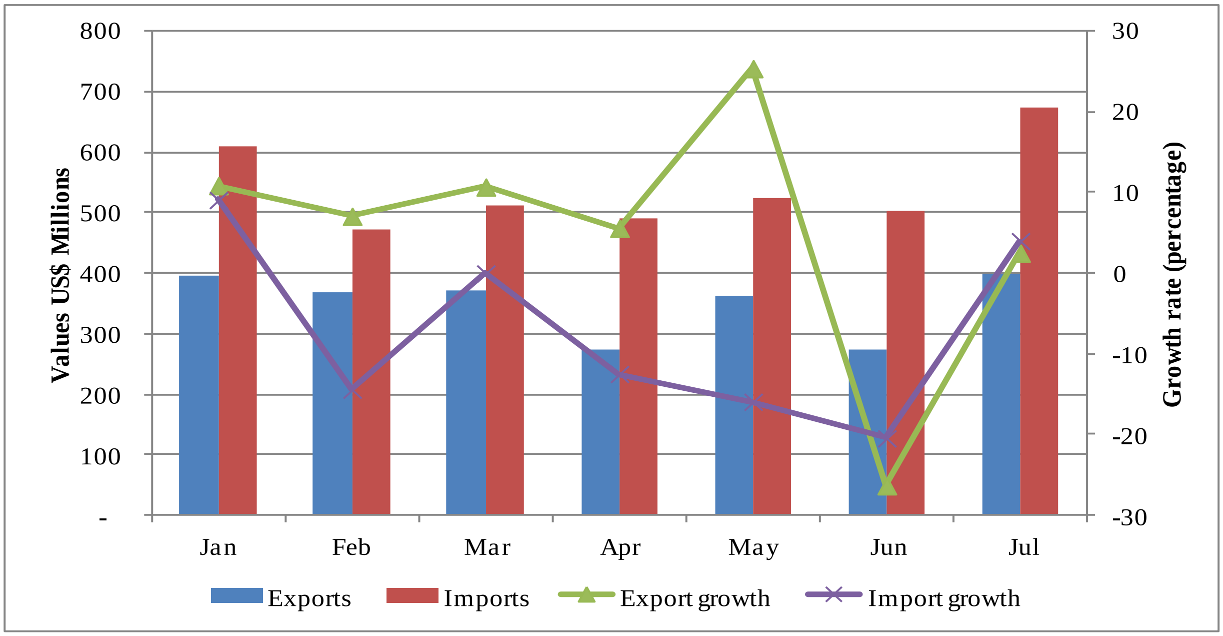


Source: ZSE 2012

2.8 External Sector Developments

The economy continues to be characterized by a trade deficit as exports are still lower than imports. This trade deficit is largely financed through further accumulation of arrears, given that private transfers and capital inflows have not been adequate. During the period January to July 2012, total exports were about US$2.44 billion while total imports for the same period were about US$3.78 billion; hence a trade deficit of about US$1.34 billion for the first six month of 2012. Although this is of concern, it is clear that exports have generally performed better in 2012 compared to the same period in 2011 as reflected by the growth rates (Figure 21). In overall terms, exports increased by about 4.19percent in 2012 compared to 2011 during the period under review. Imports on the other hand have been declining in 2012 compared to 2011, decreasing by about 7.36percent over the same period.

Figure 21: Exports-Imports trends, Jan-July 2012 and the growth rates over 2011 values



Source: ZIMSTAT

The growth rates show that exports are generally increasing at a faster rate than imports, which would be expected to eventually lead to a trade surplus. The growth pattern was reversed in June and July where exports fell significantly in 2012 compared to 2011. The overall trade deficit for the period January to July, improved from a negative US$1.7 billion in 2011 to a negative US$1.3 billion in 2012, which is an increase of about 23 percent.

Reduction in the level of imports shows to some extent the level of import substitution where locally produced products are now substituting foreign products. Although this is partly true, given the improvement in economic activity, the lower level of imports in 2012 compared to 2011 could be explained by other developments. For example, the importation of vehicles in 2011 was relatively high as the deadline on second hand vehicle importation loomed, which has since stagnated following a policy reversal. Statistics from ZIMSTAT show that the value of imports of motor vehicles, including public transport and tractors was about US$767, 62 million between January and July 2011, which fell by about 57percent to US$329.16 million in 2012 for the same period. Estimates from industry also show that capacity utilisation, which generally refers to the extent to which existing plants are being utilized, has since stagnated in 2012 at 57percent after an upward trend in 2011. Thus, machinery and spare parts which were required for industrial expansion in 2011 also constituted a higher proportion of imports in 2011 than in 2012.

However, the improvement in the trade deficit is encouraging, and implementation of import substitution strategies under the Industrial Development Policy could go a long way in sustaining this momentum.

2.9 Tourism Developments

The tourism industry witnessed an increase in economic activity, with tourist arrivals reaching a total of 767 939. This reflects a 17 percent increase from the 2011 figure of 637 389 tourists. Of these, a total of 675 721 tourists came from Africa reflecting a 19 percent increase from the same period in 2011. The European market was the second highest contributor with 40 915 tourists constituting an 18 percent increase compared to the same period last year. The British constituted 26 percent of the European market share despite a 2 percent drop in comparison with the same period in 2011. Also, to register a decline was arrivals from Austria. The decline in arrivals from the two markets follows challenges recorded in the Euro Zone and associated liquidity problems in the European market. The least number of arrivals was from the Middle East, contributing 1466 tourists marking a 36 percent decrease compared to 2011 statistics.

The mid-year hotel room occupancy slightly increased from 38 percent in 2011 to 39 percent in 2012. The room occupancy by locals declined from 88 percent in 2011 to 87 percent in 2012, while the foreign room occupancy increased from 12 percent in 2011 to 13 percent in 2012.

The tourism industry continued with the preparation for the hosting of the 20th session of the UNWTO. In line with these developments, the Government is prioritizing support for the implementation of a number of projects such as the upgrading of the Victoria Falls District hospital, Victoria Falls airport, roads and sewer projects.

The Tourism policy was finally approved by Cabinet with minor amendments in August. This comes at a time when the Government is developing the fifteen year Zimbabwe tourism master plan, which is set to boost regional and domestic tourism. The master plan is likely to spell out modalities on; fiscal incentives to the tourism industry; how to resuscitate reliable domestic flights; remove congestion and other inconveniencing systems to tourists at the border posts; and upgrading of the road network and other tourism infrastructure facilities.

The tourism industry continues to face challenges including lack of funding, tired products which are old and obsolete, shortage of water supplies, electricity shortages, inner city decay which is undermining destinations image, poor road network, low disposable income affecting the domestic market and lack of direct flights to major source markets among others. However, the introduction of new airlines such as Fly Emirates in February 2012, Fresh Airline in September 2012 and KLM Royal Dutch Airline, LAM Airline, Precision Airline anticipated in October, is expected to reduce the problem of international flow of visitors into the country. Locally, the non-functionality of Air Zimbabwe reduces the scope for international tourists to visit some tourist resorts in the country hence depriving the country of potential revenues.

3.0 POLITICAL AND GOVERNANCE ISSUES

3.1 The Constitution Making Process

Following the completion of the Draft Constitution on 17 July 2012, and the ensuing deliberations on the Draft by the respective political parties to the Global Political Agreement (GPA), the country held the Second All Stakeholder Conference over the period 21-23 October

2012. The Second All Stakeholder Conference provided a platform for different stakeholders to review and make recommendations on the draft Law, before it can be finalised. The Constitutional Select Committee (COPAC) is now incorporating the comments and suggestions made by the stakeholders, following which, COPAC shall report to Parliament on its recommendations over the content of the new Constitution for Zimbabwe. A final Draft Constitution will incorporate changes that the people of Zimbabwe, through their representatives at the Second All Stakeholders Conference, made to the Draft. Once the Draft is finalised, it will be subjected to a Referendum, hence paving the way for general elections.

4.0 TOPICAL MATTERS

4.1 Mandatory blending of Ethanol set at 5percent

The Cabinet Inter-Ministerial Committee on the Chisumbanje Ethanol Project has recommended the converting of the project from a Build Operate and Transfer (BOT) to a joint venture with the Government of Zimbabwe to pave the way for legislation requiring mandatory blending of ethanol. The Committee also recommended that the threshold for the mandatory blending be set at an initial 5 percent, subject to future reviews. However, 10percent blending would continue on a voluntary basis. The Committee also pointed out that the 5percent mandatory blending would increase the uptake of ethanol from 0.6 million litres to 2.3 million litres.

4.2 Energy Policy Launched

The Government launched the National Energy Policy which seeks to address the key challenges in the exploitation, distribution and utilization of different energy resources in the country. The country has not had a clear energy policy since 1980. The new policy sets a target of 10 000 megawatts (MW) of installed capacity by 2040 through the expansion of 800 MW at the Batoka Gorge hydropower power station by 2020, 300 MW at the Kariba South hydroelectric power station by 2016, as well as other smaller hydropower plants. The document also outlined the role of independent power producers (IPPs), public-private partnerships (PPPs) and joint ventures in the expansion of electricity. It also took into account other alternative sources of energy such as the role of renewable-energy technologies.

Electricity demand continues to outstrip supply due to the capacity constraints facing the country. The Zimbabwe Power Company indicated that the country could increase load-shedding as it undertakes mandatory maintenance exercise at Hwange Power Station from August to November 2012.During this period a total of 160 MW is expected to be lost. However, the power utility has made alternative arrangements with other regional utilities to partially augment supplies during the maintenance period. NamPower of Namibia has extended the US$40 million power supply deal with the Zimbabwe Power Company (ZPC) for another year, to enable ZESA to cover for the shortfall. The power deal was started in 2007 when Manpower made available funding towards the refurbishment of the Hwange thermal power station and in return ZPC was supposed to deliver 150 MW of power daily to NamPower for five years.

5.0 CONCLUSION

The poor fiscal performance remains a cause of concern given that a number of priority government projects remain outstanding as the bulk of government revenues are consumed by recurrent expenditures. The government needs to base its revenue projections on realistic and attainable assumption to avoid the issue of revising figures mid-way through forecasting period. The poor projection has also seen the government revising the economic growth forecast from 9.4 percent to 5.6 percent, revising the forecast by almost half is really off the mark hence the need to collect timely statistics on sectoral performance and develop robust forecasting models based on realistic assumptions. Besides the poor projections, there is also need for the government to take a holistic view on the performance of the growth drivers which have seen the economy performing below expectation such agriculture, tourism and mining with a view of coming up with policies that will foster economic growth. While on the other hand, the government should ensure that the key enablers of the economy start to work so as to assist the growth drivers of the economy to start to work.

6.0 STATISTICAL APPENDIX

TABLE 1A: International Commodity Prices

	2011						2012								
	July	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**April**	**May**	**Jun**	**July**	**Aug**	**Sep**
Gold (US$/oz.)	1,570.66	1,766.32	1,772.42	1,664.82	1,737.48	1,652.99	1,655.87	1,655.87	1,655.87	1,655.87	1,655.87	1,655.87	1,655.87	1,655.87	1,655.87
Platinum ($/oz.)	1,759.32	1,813.44	1,752.36	1,536.02	1,576.50	1,468.01	1,507.05	1,507.05	1,507.05	1,507.05	1,507.05	1,507.05	1,507.05	1,507.05	1,507.05
Brent crude ($/bl.)	116.64	110.28	110.06	108.74	110.45	107.90	111.76	111.76	111.76	111.76	111.76	111.76	111.76	111.76	111.76
Maize ($/t)	264.88	304.00	280.60	273.40	275.80	258.44	285.00	285.00	285.00	285.00	285.00	285.00	285.00	285.00	285.00
Wheat ($/t)	240.59	329.00	304.20	302.00	301.40	269.03	310.00	310.00	310.00	310.00	310.00	310.00	310.00	310.00	310.00

Sources: Bloomberg, IGC, BBC, Reuters

TABLE 1B: Annual Inflation (%)

Dec-09	**Jan-10**	**Feb-10**	**Mar-10**	**Apr-10**	**May-10**	**Jun-10**	**Jul-10**	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**
-7.67	-4.75	-0.73	3.52	4.79	6.07	5.31	4.15	3.60	4.22	3.60	4.18	3.23
Jan-11	**Feb-11**	**Mar-11**	**Apr-11**	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**	
3.52	3.04	2.67	2.69	2.50	2.86	3.26	3.54	4.29	4.20	4.20	4.90	
Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**June 12**	**July-12**	**Aug-12**	**Sep-12**				
4.30	4.30	4.00	4.03	4.02	3.97	3.94	3.63	3.24				

Source: ZIMSTAT

TABLE 1C: Monthly Inflation (%),

Jan-09	**Feb-09**	**Mar-09**	**Apr-09**	**May-09**	**Jun-09**	**Jul-09**	**Aug-09**	**Sept-09**	**Oct-09**	**Nov-09**	**Dec-09**
-2.34	-3.14	-3.03	-1.10	-0.95	0.62	0.98	0.38	-0.48	0.81	-0.07	0.48
Jan-10	**Feb-10**	**Mar-10**	**Apr-10**	**May-10**	**Jun-10**	**Jul-10**	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**
0.74	0.96	1.12	0.12	0.26	-0.10	-0.13	-0.14	0.12	0.21	0.49	-0.44
Jan-11	**Feb-11**	**Mar-11**	**Apr-11**	**May-11**	**June-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
1.03	0.49	0.75	0.14	0.08	0.24	0.26	0.13	0.85	0.10	0.50	0.20
Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**June-12**	**Jul-12**	**Aug-12**	**Sep-12**			
0.46	0.49	0.43	0.19	0.07	0.20	0.22	-0.2	0.5			

Source: ZIMSTAT

TABLE 1D: Annual Broad Money (M3) Growth (%)

Jan-10	**Feb-10**	**Mar-10**	**Apr-10**	**May-10**	**Jun-10**	**Jul-10**	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**
	303.5	322.5	253.7	236.3	160.2	144.3	136.7	136.2	117.0	89.7	68.5
Jan-11	**Feb-11**	**Mar-11**	**Apr-11**	**May-11**	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
67.8	59.0	52.6	48.4	49.2	56.7	51.6	44.7	32.3	41.9	34.5	33.2
Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**				
33.2	37.4	33.4	32.8	31.0	23.8	27.2	21.6				

Source: Reserve Bank of Zimbabwe

TABLE 1E: IMPORT BALANCES

	May-11	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
Imports (c.i.f) US$	623,206,079	630,450,492	648,464,154	1,222,428,122	815,114,707	1,262,300,269	622,964,149	587,901,029
	Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**
Imports (c.i.f) US$	598,628,842	464,135,767	504,991,549	482,997,091	523,990,332.00	500,657,173.00	674,429,368.00	799,467,460.00

Sources, ZIMSTATS

TABLE 1F: EXPORT BALANCES

	May-11	**Jun-11**	**Jul-11**	**Aug-11**	**Sep-11**	**Oct-11**	**Nov-11**	**Dec-11**
Exports (US$)	288,743,562	373,029,213	388,786,028	221,313,963	226,974,741	143,866,926	245,169,257	376,849,339
	Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**
Exports (US$)	394,564,325	366,873,425	371,063,585	272,053,370	362,088,546.60	274,754,528.81	398,552,796.72	532,611,098.86

Sources: ZIMSTATS

TABLE 1G: FOREIGN EXCHANGE

	2011							2012						
	July	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apri**	**May**	**Jun**	**July**	**Aug**	**Sep**
Exchange Rate ZAR/USD*	6.73	7.04	8.08	7.8	8.33	8.14	7.78	7.43	7.67	7.82	8.15	8.39	8.24	8.29	8.27
Foreign Exchange Reserves (US$ m)	490.68	470.87	436.25	437.19	420.24	414.14	430.78	550.97	487.20	510.11	456.40	439.5	443.53	392.91	-

Sources: Reserve bank of South Africa, Reserve Bank of Zimbabwe; Notes;-monthly averages*

Table 1H: Total Banking Sector Deposits (US$)

	2011				2012							
	Sept	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**April**	**May**	**Jun**	**July**	**Aug**
Demand Deposits	1,816,419.3	1,797,998.4	1,701,086.4	1,845,026.8	1,871,724.30	2,012,823.82	1,925,785.95	1,922,666.69	1,889,026.30	1,952,044.50	1,986,008.40	1,933,788.44
Saving and Short-Term Deposits	863,227.0	966,295.0	1,056,190.2	952,533.0	1,014,873.70	1,068,952.11	983,065.10	1,057,917.25	1,167,573.80	1,249,972,70	1,142,006.90	1,209,790.95
Long-Term Deposits	229,271.6	259,913.6	349,644.8	288,916.5	331,299.5	302,841.7	258,426.40	295,791.79	523,585.40	388,253.50	569,545.10	445,718.94
Total Deposits	**3,029,291.1**	**3,053,209.9**	**3,088,576.1**	**3,100,401.5**	**3,145,024.4**	**3,377,567.7**	**3,438,618.5**	**3,453,755.2**	**3,580,1854.4**	**3,590,270.7**	**3,697560.4**	**3,589,298.3**

Sources: Reserve Bank of Zimbabwe

Table 1I: Gold Deliveries

	2011				2012								
	Sept	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**April**	**May**	**Jun**	**July**	**Aug**	**Sept**
Gold Production(Kg)*	757	892	745	812	870	1158	1117	1312	1053	928	1338	1200	1114

*Sources: Reserve Bank of Zimbabwe, * monthly averages*

Table 1J: Diamond Production

	2009				**2010**				**2011**			
	January-June		**July-December**		**January-June**		**July-December**		**January-June**		**July-December**	
Diamond Production	Volume (cts)	Value (U$m)	Volume (cts)	Value (U$m)	Volume (cts)	Value (U$m)	Volume (cts)	Value (U$m)	Volume (cts)	Value (U$m)	Volume (cts)	Value (U$m)
	303,193.20	8.30	660,308.50	12.12	4,881,663.55	153.41	3,553,560.47	186.34	2,554,069.48	153.30	5,948,578.59	322.92

Sources: KPSC (https://kimberleyprocessstatistics.org)

Table 1K: Government Budget

	2011									**2012**						
	Dec	**Mar**	**June**	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**June**	**Jul**
Revenues ($m)	250.90	218.55	277.29	240.33	243.29	264.22	245.67	274.45	301.40	256.01	227.23	287.86	247.73	256.4	321.7	257.5
Spending ($m)	311.58	173.52	221.13	234.00	246.59	292.48	219.21	276.75	485.43	170.40	282.82	267.99	312.71	239.1	301.4	287.8
Balance ($m)	-60.68	45.03	56.16	6.33	(3.30)	(28.26)	26.46	(2.30)	(184.03)	85.61	(46.83)	19.87	(64.98)	17.3	20.3	(30.3)

Sources: Ministry of Finance, Note: monthly averages

TABLE 1L : ZIA INVESTMENT APPROVALS

	January To September 2012		January to December 2011		January to December 2010		January to December 2009	
Sector	**No. of projects**	**Total Investment (US$)**	**No. of projects**	**Total Investment (US$)**	**No. of projects**	**Total Investment (US$)**	**No. of projects**	**Total Investment (US$)**
Agriculture	2	12,200,000.00	3	444,776,611.30	1	2,100,000.00	1	3,201,000.00
Construction	6	92,160,283.38	5	120,934,000.00	5	258,840,000.00	3	3,250,000.00
Manufacturing	42	29,734,572.00	91	669,953,655.39	87	53,115,691.22	57	41,664,727.52
Mining	48	608,690,816.42	62	3,687,328,621.41	37	186,102,528.00	35	1,256,482,137.00
Services	29	30011733.31	57	128,099,343.00	27	18,072,580.10	27	19,323,886.00
Tourism	3	1,075,000.00	9	1,583,143,694.00	2	510,000.00	4	21,991,070.00
Transport	1	230,000.00	0	-	4	1,730,000.00	1	640,980.00
Total	**131**	**774,102,405.11**	**227**	**6,634,235,925.10**	**163**	**520,470,799.32**	**128**	**1,346,553,800.52**

Source: Zimbabwe Investment Authority

Table 2A: Annual Economic Growth

	2008	2009	2010	2011
GDP Growth (%)	-17.7	6.0	9.0	-
GDP (US$ Million)	4,416	5,836	7,474	-

Source: ZIMSTAT

Table 2B: International Commodity Prices

	2008	2009	2010	2011
Gold (US$/oz.)	871.64	982.50	1 218.59	1 358.42
Platinum (US$/oz.)	1 577.00	1 212.25	1 608.23	1 721.92
Brent Crude Oil	-	-	-	-
Maize	-	-	-	-
Wheat	-	-	-	-

Source: International Grain Council, BBC, Reuters

Table 2C: Money & Prices

	2009	2010	2011
Inflation (Annual Average) %		3.10	3.50
Inflation (Year End) %	-7.70	3.20	4.90
Base Lending Rate (Merchant Banks) %	-	-	20.47
Weighted Average Base Lending Rate (Merchant Banks) %	-	-	20.47
Base Lending Rate (Commercial Banks)	-	-	11.81
Weighted Average Base Lending Rate (Commercial Banks) %	-	-	11.80
Deposit Rates (3 Month Annual Average) %	-	-	8.73
Deposit Rates (Savings) %	-	-	2.26
M3** (Year End) (US$ Billion)	-	2.33	3.10
M3 (Annual Average) (US$ Billion)	-	-	2.79

*Source: Reserve of Bank Zimbabwe, Notes: ** Defined as Total Banking Sector Deposits, – Missing Data.*

Table 2D: Trade & Balance of Payments

	2008	2009	2010	2011
Exports - Total Goods (US$ Millions)	1 660.43	1 613.27	3 245.45	3 557.026
Imports - Total Goods (US$ Millions)	2 629.55	3 213.07	5 864.93	8 594.286
Current Account Balance (US$ Millions)	-775.34	-1 140.3	-1 917.8	-3 006.28
Overall Balance (US$ Millions)	-725.23	-1867	-412.05	-665.07

Sources: ZIMSTATS Figures for 2011 are estimates and import figures for 2008 and 2009 are f.o.b

Table 2E: Foreign Exchange

	2008	2009	2010	2011
Exchange Rate ZAR per USD	8.26	8.28	7.31	7.28
FX Reserves (US$ Million)	-	-	-	-
Import Cover Ratio	-	-	0.847	0.635
External Debt (US$ Million)	4,690	5,787	7,050	-
External Debt (% of GDP)	106%	99%	94%	-

Source: Reserve Bank of Zimbabwe

Table 2F: Banks Deposits, Assets and Credit

	2009	2010	2011
Bank Assets (Annual Average) (US$ Million)	-	2,271.8	3,393.7
Deposits (Annual Average) (US$ Million)	-	2.793	
Bank Credit to Private Sector (Annual Average) (US$ Million)	-	1.235	2.344
Loan/Deposit Ratio (Annual Average) %	-	-	83%

Source: Reserve Bank of Zimbabwe

Table 2G: Zimbabwe Stock Exchange Indices

	2009	2010	2011
ZSE Industrial Index (Annual Average)	151.99	151.30	157.54
ZSE Mining Index (Annual Average)	185.50	200.40	173.70

Source: Zimbabwe Stock Exchange

Table 2H: Business / Production Indicators

	2008	2009	2010	2011
Gold Production (Kg)	3 579.00	4 966.00	-	11 645.26
Platinum Production(Kg)	5 495.10	6 848.90	-	-
Tobacco Sales (Kg Millions)	69.79	63.6	85.04	177.8
Maize Production (Kg Millions)	435.16	1 242.56	1 322.57	1 451.63
Cotton Production (Kg Millions)	226.44	246.76	172.13	220.22

Source: Chamber of Mines, TIMB and Agritex

Table 2I: Government Budget

	2009	2010	2011
Revenues (US$ Million)	897.49	2 339.06	2 921.02
Spending (US$ Million)	850.28	2 106.95	2 895.85
Balance (US$ Million)	47.21	232.11	25.17

Sources: Ministry of Finance