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ABBREVIATIONS

Agritex	Agriculture and Extension Services
AMCU	Association of Mineworkers and Construction Union
BTF	Boka Tobacco Floors
CBZ	Commercial Bank of Zimbabwe
CMED	Central Mechanical Equipment Department
COMESA	Common Market for East and Southern Africa
COPAC	Constitution Parliamentary Select Committee
DIMAF	Distressed and Marginalised Areas Fund
EAC	East African Community
FOMC	Federal Open Market Committee
FTA	Free Trade Area
GMB	Grain Marketing Board
Ha	Hectare
IMF	International Monetary Fund
MENA	Middle East and North Africa
MoF	Ministry of Finance
OPEC	Organization for Petroleum Exporting Countries
PTF	Premier Tobacco Floor
RBZ	Reserve Bank of Zimbabwe
RECs	Regional Economic Communities
SADC	Southern African Development Community
SSA	Sub Saharan Africa
TIMB	Tobacco Industry and Marketing Board
TSF	Tobacco Sales Floor
TTNF	Tripartite Trade Negotiation Forum
UNWTO	United Nations World Trade Organisation
US	United States
USD	United States Dollars
WEO	World Economic Outlook
ZEPARU	Zimbabwe Economic Policy Analysis and Research Unit
ZESA	Zimbabwe Electricity Supply Authority
ZETREF	Zimbabwe Economic and Trade Revival Facility
ZIA	Zimbabwe Investment Authority
ZIMRA	Zimbabwe Revenue Authority
ZIMSTAT	Zimbabwe Statistics Agency
ZINWA	Zimbabwe National Water Authority
ZSE	Zimbabwe Stock Exchange
ZTA	Zimbabwe Tourism Authority

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Executive Summary

The Zimbabwean economy has maintained price stability, with annual inflation at 1.87% in June 2013, which is within targeted levels. In this case, Zimbabwe's inflation remains among the lowest in the SADC region. However, although the economy is still on a positive growth path and stable, there is noticeable slow-down in economic activity. Companies have continued closing down and others still further scaling down activities, with massive retrenchments adding to the pool of unemployed labour in the economy.

On the stock market, a number of companies have voluntarily asked for delisting and others have been compulsorily delisted largely due to working capital constraints. In the banking sector, total banking sector deposits have continued on the increase in this quarter, reaching US$4.02 billion in May 2013, but the growth rate has continued declining. Increased demand for long-term funding remains a key issue as there continues to be limited transformation of short-term deposits into long-term loans required for long-term capital investments. In addition, there does not seem to be significant changes in lending, savings and deposit rates after the signing of the memorandum of understanding (MOU) between the banks and the central bank, which encourages banks to reduce lending rates and to up savings and deposit rates. Some money is still circulating outside the formal banking system. In the run up to the national elections on 31 July 2013, some depositors are reported to have been withdrawing their money from the banks, largely due to uncertainty regarding the tenor of the multicurrency regime after elections and post-election political and economic uncertainty.

In the external sector, the external trade deficit has continued widening, with imports outstripping exports. The country's national reserves are estimated at 0.2 months of import cover, which fall far short of the SADC macroeconomic convergence threshold of 3 months. On fiscal developments, the fiscal position is expected to worsen in the coming months as Government seeks to accommodate election related expenditures estimated at US$107 million.

While the economy has maintained price stability, the growth process is slowing down. More confidence building strategies are required in the financial services sector. Additional lines of credit are required to boost the productive sectors, particularly the manufacturing sector, whose growth has been sluggish, particularly because of constraints in securing long-term lines of credit, as well as the high cost of credit. It has particularly been a challenge for distressed companies to secure funding from the banking sector.

1. GLOBAL AND REGIONAL ECONOMIC DEVELOPMENTS

1.1 World Economic Developments

Global growth is projected to remain sub-dued at 3.1% in 2013, the same as in 2012. This is less than the 3.3% forecast in the April 2013 World Economic Outlook (WEO), mainly due to weaker domestic demand and slower growth in several key emerging market economies, as well as a more protracted recession in the euro-area. On the back of several downside risks, which include the possibility of a longer growth slowdown in emerging market economies, slowing credit and tighter financial conditions in the United States, global growth is projected to average 3.8% in 2014 (Table 1). Stronger global growth will require additional policy action to deal with the downside risks to growth, including maintaining a supportive macroeconomic policy mix, combined with credible plans for reaching medium-term debt sustainability in major emerging market economies (WEO July 2013).

Table 1: Overview of the World Economic Outlook Projections (Percent Changes)

	2011	2012	2013	2014
World Output	3.9	3.1	3.1	3.8
United States	1.8	2.2	1.7	2.7
Euro-area	1.5	–0.6	–0.6	0.9
Emerging Market & Developing Economies	6.2	4.9	5.0	5.4
Sub-Saharan Africa	5.4	4.9	5.1	5.9
Middle East and North Africa	3.9	4.4	3.1	3.7

Source: WEO Update, July 2013

Growth in the United States is projected to rise from 1.7% in 2013 to 2.7% in 2014, on the back of strong private demand, given rising household wealth owing to the housing recovery and still supportive financial conditions (Table1). The euro-area growth is projected to remain in recession in 2013, with activity contracting by 0.6%. Growth is, however, expected to rise to just less than 1% in 2014, weighed down by the persistent effects of the constraints discussed above and the expected delays in policy implementation in key areas (WEO, July 2013).

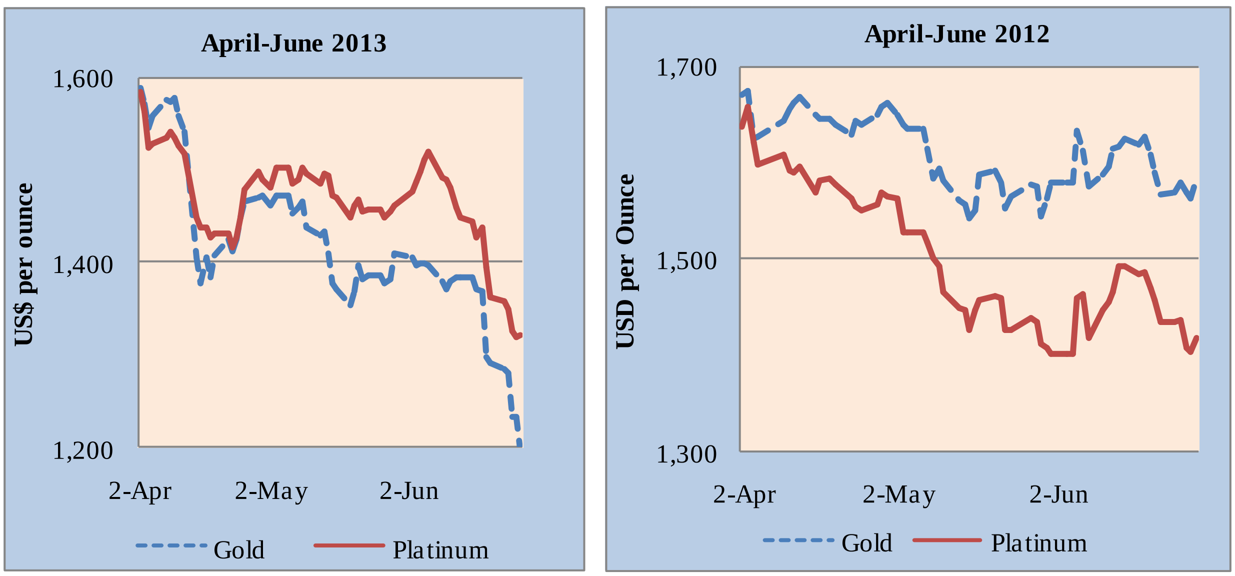
In emerging market and developing economies, growth is now expected to evolve at a more moderate pace at 5% in 2013 and about 5.4% in 2014. This embodies weaker prospects across all regions. In China, growth will average 7.8% in 2013, through to 2014, whilst forecasts for the remaining BRICS have been revised downwards to 2.5% for Russia; 5.6% for India and 2.5% for Brazil, while South Africa is projected to grow at 2.0%. This is mainly due to deteriorating commodity prices. Growth in Sub-Saharan Africa is projected to average 5.1% and 5.9% in 2013 and 2014, respectively. In the Middle East and North Africa region, growth is expected to remain weak at 3.1% in 2013, amidst political uncertainty and unrest in several countries.

1.2 International Commodity Price Developments

1.2.1 Precious Metals

Prices of precious metals followed a downward trend in the second quarter of 2013. Compared to the second quarter of 2012, gold and platinum traded weaker although prices were less volatile. Gold traded at a higher margin than platinum in the second quarter of 2012, whereas platinum traded at higher premium than gold in second quarter of 2013. The second quarter of 2013 saw the price of gold declining from US$1,591, to close the quarter at its lowest level of US$1,198 on June 28, and platinum from US$1,586 to close the quarter at US$1,321 (Figure 1).

Figure 1: Gold and Platinum Price Movements April-June 2012 and 2013



Source: Bloomberg and Reuters

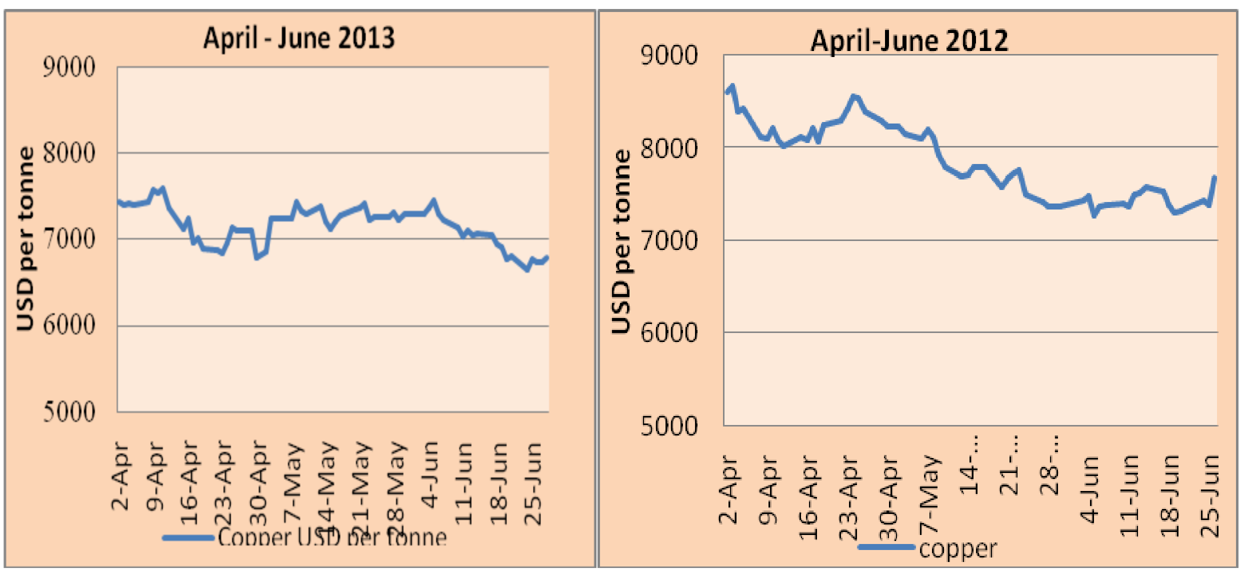
In average terms, the price of gold declined from US$1,486 in April to US$1,414 in May and further down to US$1,343 in June 2013. There was a heavy sale of gold in mid-April, which pulled down the gold price to as low as US$1,439. The bearish mode in the gold market was buttressed by speculations around the Federal Open Market Committee (FOMC) ending its asset purchase program sooner-than-expected. The depreciation of the Indian Rupee and the introduction of import tax on gold contributed to contraction in gold demand in India, a leading gold importer. Moreover, the slow global economic recovery, as signaled by the lower-than-expected growth in the Chinese economy, in the first quarter of 2013, weighed in on gold price. The recovery of the United States equity markets, serving as an alternative investment for gold bullion, has also contributed to the fall in gold price in the quarter. However, the improved demand for gold in China, as well as increased global demand for jewellery, coins and bars, helped pull up the gold price in the quarter. In addition, the pledge of the Federal Open Market Committee to maintain its low rates until mid-2015 helped pull up the gold price.

The monthly average price of platinum fell from US$1,488 in April, to US$1,477 in May and US$1,431 in June. The decline in the growth rate of the manufacturing sectors in China and Europe contributed to the fall in the platinum price. The increasing investors' aversion to risk assets, as well as the weak car sales data from Europe, revealing a decline in sales of 6% year-on-year in May, also contributed to the decline in platinum price. The platinum price was also abetted by rising tension in the South African mining sector, in advance of wage talks scheduled to begin end of June, 2013.

1.2.2 Base Metals

Copper was trading weaker in the second quarter of 2013 compared to the same period in 2012 (Figure 2). The price of copper declined to as low as US$6,878 in April 22, owing to the factors that militated against the poor precious metal prices highlighted above. Copper price firmed for the greater part of May, owing to the increase in ore demand at refineries, following the enforcement of strict quality checks of scrap copper shipments by the Chinese ports and also a slowdown in United States recycling. However, the price was on the decline in the greater part of June.

Figure 2: Copper Price Movements April-June 2012 and 2013

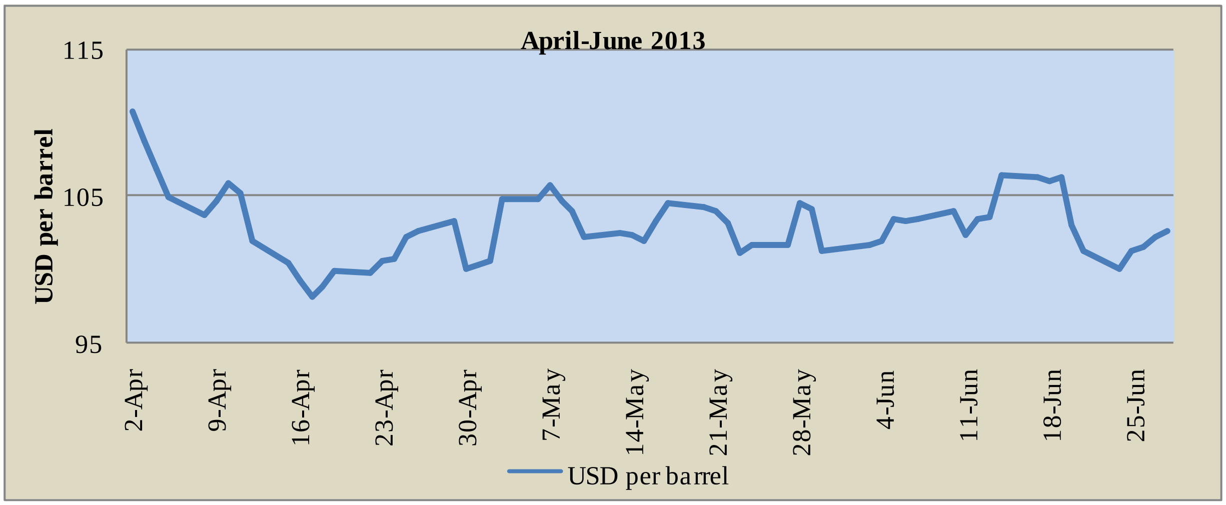


Source: Bloomberg and Reuters

1.2.3 Brent Crude Oil

Brent crude oil price followed a cyclical pattern in the second quarter of 2013 (Figure 3). The average monthly price of brent crude oil rose from US$103 in April to US$104 in May and fell back to US$103 in June. The slow global economic recovery, as reflected by weak manufacturing data from China and lower-than-expected growth figures across the Euro-zone in the first quarter of 2013, had a bearing in the fall in oil demand. Record levels of US crude oil inventories, as well as lower-than-expected demand data, as a result of the spring maintenance, contributed to the fall in oil price. Furthermore, the recurrent fears about an early scale-back in the US Federal Reserve's stimulus programme elevated doubts over demand predictions. On the supply side global inventories continued to increase, particularly in Europe and the US market, revealing the weak demand despite the summer driving season. Brent crude oil price registered slight improvement in the month of June, which was supported by the general improved sentiment in the oil market.

Figure 3: Brent Crude Oil Prices April-June 2013



Source: Bloomberg and Reuters

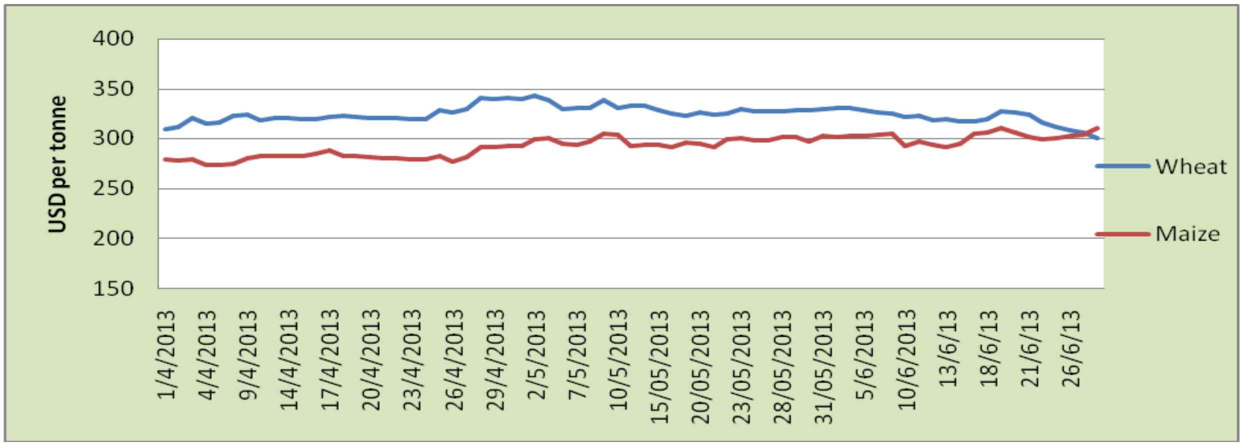
In the outlook period, commodity prices are expected to firm if major central banks are able to maintain their rates unchanged. The anticipated greater-than-initially forecasted economic growth in China in the second quarter would also help strengthen commodity prices in the next quarter.

1.2.4 Maize and Wheat

World maize and wheat supplies in the second quarter of 2013 remained constricted, following poor harvests in key exporting countries in the 2012/13 season. Despite the anticipated increase in the South American crops, drought conditions in the United States remain a concern and recovery in demand is likely to keep supplies under pressure.

The second quarter of 2013 witnessed a steady increase in the maize price from US$279 at the beginning of April to close the quarter on a higher note at US$304 (Figure 4). The improvement in the maize price was a result of the decline in world maize production due to drought in the 2012/13 season, despite record outturns being seen in Brazil and Argentina. The delays in planting, due to excessively wet weather in the United States, as well as speculation of potentially lower yields also helped strengthen the maize price in the quarter. World maize output is forecast to rebound by 10% in the 2013/14 planting season and demand is expected to increase by 6%, owing to increased feeds and industrial use.

Figure 4: Maize and Wheat Daily Prices in the 2nd Quarter of 2013



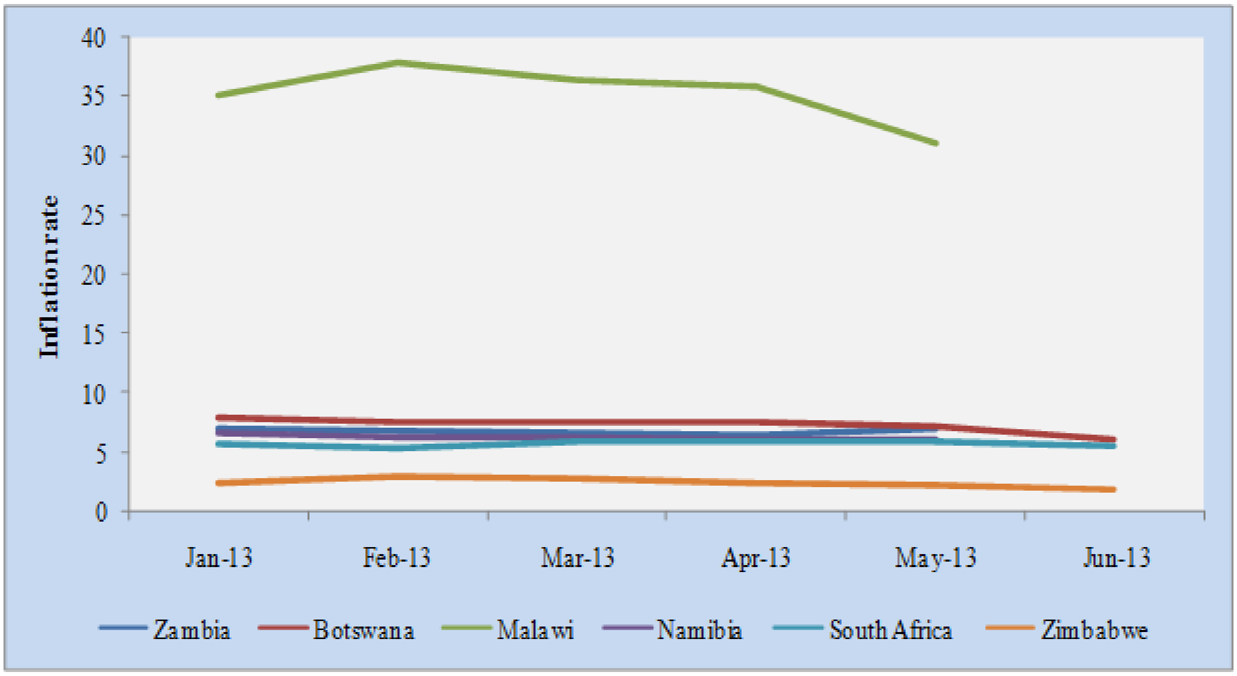
Source: International Grain Council

The wheat price was able to hold up in the second quarter of 2013, owing to reduced yields arising from the adverse weather conditions experienced in the 2012/2013 season in the United States and China. However, expectations of improved global wheat availabilities in the 2013/14 season contributed to the softening on the wheat price in the last half of June. Prospects of an abundant world wheat harvest, as well as a bumper maize harvest could limit demand for wheat in some countries. The forecast for world wheat production in 2013/14 season is expected to increase by 4% year-on-year.

1.3 Inflation Developments in the Southern African Development Community Region

Inflation rates in the SADC region remained generally low and stable, with the exception of Malawi, which has the highest rate. Zambia's annual inflation increased from 6.6% in May 2012 to 7.0% in May 2013. The increase in inflation was largely attributed to the removal of subsidies on maize and fuel. In Botswana, the annual inflation rate dropped from 7.7% in May 2012 to 6.1% in May 2013. The major drivers for this decline have been low food, alcoholic beverages and housing equipment & maintenance prices. Meanwhile, South Africa's inflation rate increased slightly to 5.9% in March, April and May 2013, consecutively before declining to 5.6% in June 2013 as the Rand depreciated against major currencies resulting in the increase in production costs. Malawi's annual inflation has remained high (Figure 5), with inflation rate increasing to 31.0% in May 2013, from 17.3% in May 2012. This has been on account of the depreciation of the Malawian kwacha, which had an impact on fuel prices.

Figure 5: Inflation Rates for Selected SADC Countries



Source: ZIMSTAT, CSO-Zambia, RBSA, Bank of Botswana, NSA Namibia, NSO Malawi

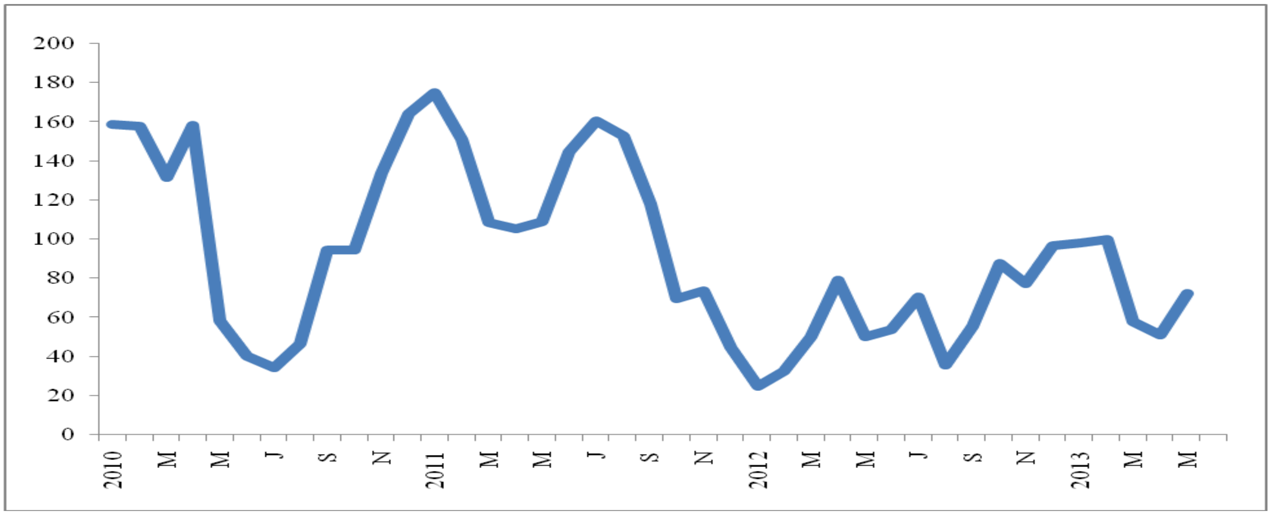
Inflation in Zimbabwe has remained within the Medium Term Plan (MTP) target and the SADC macroeconomic convergence range of below 5%. Year-on-year inflation for the month of June 2013 stood at 1.87%. The country's inflation trend has largely been underpinned by the changes in the US$/ZAR exchange rate in the second quarter of 2013.

2. MACROECONOMIC DEVELOPMENTS

Although still positive, growth in the economy is slowing down. This is against the background of, among other factors, challenges in accessing long-term lines of credit, intense competition from cheaper imported products by high cost local manufacturers, political and economic uncertainty just before elections in July 2013. There is also uncertainty pertaining to the tenor of the multicurrency system after the elections, which has resulted in some depositors withdrawing money from the formal banking system ahead of the elections. Some investors have also adopted a wait-and-see attitude in the run-up to elections.

The ZEPARU Leading Indicators Index (Figure 6) shows that in the last month of the second quarter of 2013, economic activity improved, but over the whole second quarter, there was general decline in economic activity, compared to the first quarter of 2013.

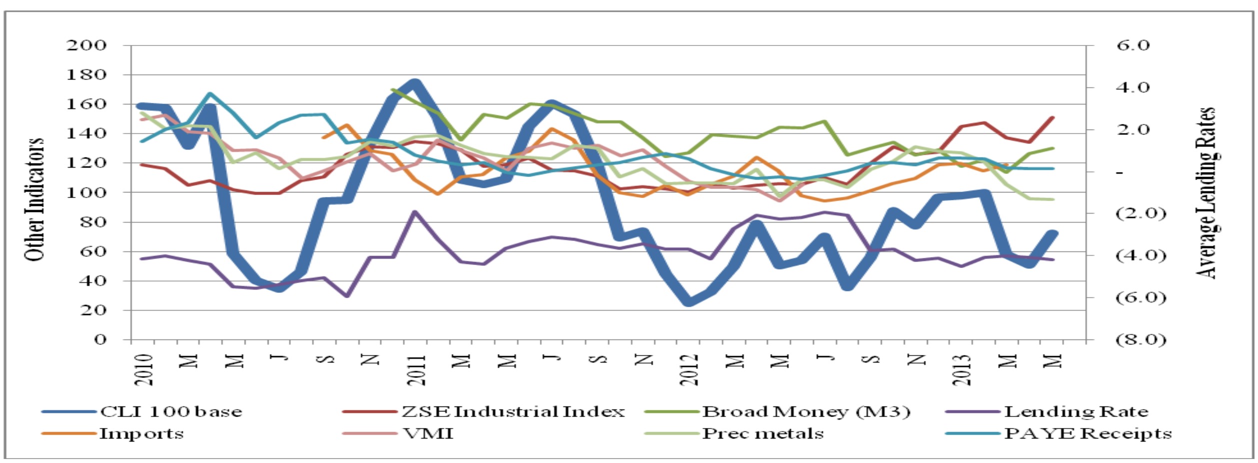
Figure 6: ZEPARU Leading Indicators Index



Source: ZEPARU

In view of the slowdown in economic activity, there is need for more confidence building so as to attract international capital as domestic savings are inadequate to revitalise economic activity. The key indicators point to an urgent need to revamp industrial production.

Figure 7: ZEPARU Leading Indicators Index and Its Components



Source: ZEPARU

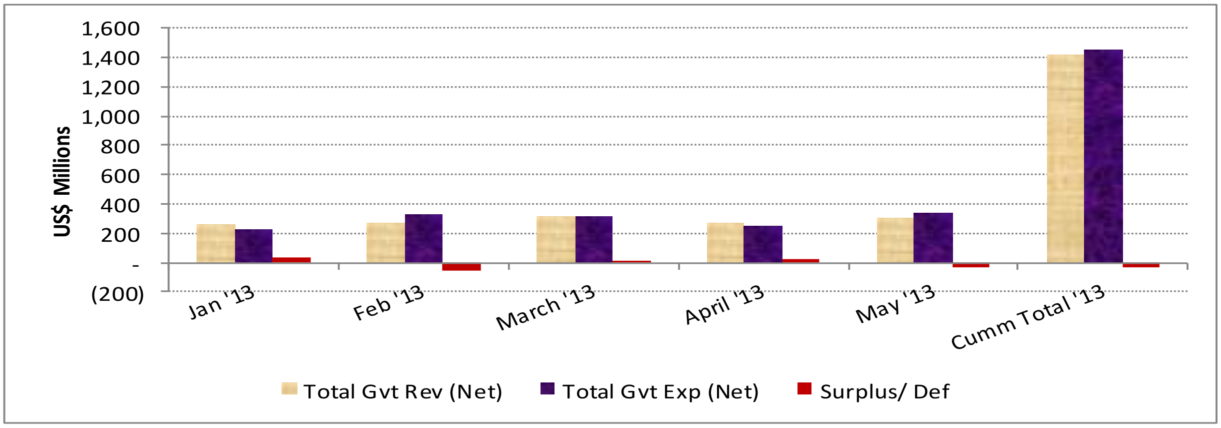
The decline in prices of precious metals (Figure 7) in the second quarter of 2013 contributed to the weak performance of economic activity in Zimbabwe.

2.1 Fiscal Developments

Revenues Outturn

The cumulative revenue outturn for the first five months to May 2013 amounted to US$1.412 billion, an improvement of 10.77% compared to the same period in 2012, wherein the revenue outturn amounted to US$1.275 billion (Figure 8). The improvement in revenue outturn was largely underpinned by significant improvements in PAYE, VAT and Excise. Of the Cumulative revenues, tax revenues accounted for 93.79% at US$1,325 billion, while non-tax revenues accounted for the remaining 6.21% at US$87.73 million. The major contributors to tax revenues were VAT 33.01%, PAYE 21.79%, Customs duty 11.25%, Corporate tax 9.16%, Excise duty 7.59% and other taxes 17.2%.

Figure 8: Fiscal Developments from January to May 2013 in US$ Millions



Source: Ministry of Finance

Expenditure Outturn

Cumulative expenditures to May 2013 amounted to US$1.449 billion. Against a cumulative revenue outturn of US$1.412 billion, government incurred a deficit of US$36.95 million. The Government fiscal position is expected to worsen, in the coming months, as the Government seeks to accommodate election related expenditures, estimated at US$107 million[1]. This would work against the commitments that the Government has made under the Staff Monitored Programme (SMP), including maintaining a positive primary cash balance, building a fiscal buffer and rebuilding international reserves. The country's international reserves are currently estimated at 0.2 months[2] of import cover, which falls far short of the SADC macroeconomic convergence threshold of 3 months.

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[1]State of the Economy Report for December 2012 and January 2013 by the Minister of Finance, Hon. T. Biti (MP).

[2]International Monetary Fund (IMF) Country Report No.13/193, Zimbabwe Staff Monitored Programme.

Pressures on the fiscus may adversely affect growth as the Government may be forced to continue accumulating domestic arrears, with negative consequences on service delivery and competitiveness or redirect funds from the planned public sector investment programme towards the financing of the elections. Enhanced donor support would thus, be required to reduce the negative impact of election related financing on the budget. Furthermore, the government would need to address its expenditure mix, which has remained highly consumptive. Total recurrent expenditures accounted for 93% at US$1.348 billion, while the cumulative capital spending accounted for 7% of the budget at US$98.33 million.

2.2 Manufacturing Sector Developments

The two events that took place towards the end of the second quarter of 2013 helped to shed light on the scope for improving manufacturing sector performance. The European Union (EU) Delegation to Zimbabwe organized a seminar in Harare on the 6th and 7th of June 2013, which informed the manufacturing sector on how they could take advantage of interim Economic Partnership Agreement (EPA) with the EU. The interim EPA, which came into force in May 2012 for four southern Africa countries (Madagascar, Mauritius, Seychelles and Zimbabwe) allow firms in these countries to enjoy duty and quota free exports into the EU for all products.

The interim EPA implies that Zimbabwean firms have enhanced access to a large market, generating about 25% of the world's GDP, at more favourable terms than firms from other countries in the region and abroad, which are yet to sign the agreement. Zimbabwe industry can try to leverage on Zimbabwe's comparative advantage in primary products and invest in value addition along those products for duty free export into the EU.

Business also gathered in Victoria Falls on 12-14th of June 2013 for the Zimbabwe National Chamber of Commerce's (ZNCC) annual congress. Among other issues, it was pointed out that the growth of the manufacturing sector was largely constrained by competitiveness challenges. Foreign products now dominate the local market, with domestic firms struggling to compete.

The two events reveal that opportunities might crop up at a time when a lot of challenges for utilising the opportunities exist. Significant amounts of investment into competitive production are called for to ensure that Zimbabwean firms can be relevant in the international market. For example, the EU standard specification can become a significant trade barrier to firms using technologically inferior systems. This becomes even more necessary, given that the EU has also negotiated with other countries such as Colombia and Singapore and is currently negotiating similar arrangements with more countries such as Malaysia, Thailand, Indonesia, Philippines and India, which a competitive edge over Zimbabwe firms in several product lines.

Firms would also require government support, mostly in the form of a conducive policy environment, to become competitive in the international market. For example, key performance enablers such as railways, water delivery and electricity are both costly and unreliable, thereby increasing the cost of doing business which undermines efforts to produce internationally competitive products. Policy prescriptions under the Medium Term Plan, which provide for the private sector to play a significant role in rehabilitation, maintenance and expansion of infrastructure through public private partnerships, could go a long way in improving business sector competitiveness if they are fully and timeously implemented. In addition, partnerships with technologically advanced companies from around the world would help Zimbabwean firms recovering from a decade of disinvestment, to tap into latest production systems. Thus, injection of new capital through foreign direct investment (FDI) is critical for the revitalization of the manufacturing sector.

The inflow of FDI into the country since the launch of Zimbabwe Investment Authority (ZIA) as a One-Stop Shop Investment Centre (OSSIC) is below the targets envisaged in the MTP. Although foreign investors have demonstrated an intention to invest in the country, the actual investment has always been far less than the approved levels. Statistics reveal that about US$10.2 billion worth of investment projects were approved by ZIA between 2008 and 2011, although only about US$709.5 million actual FDI came into the country during the same period. Thus, only about 6.9% of approved investment would be expected to materialize, which is a cause for concern, given the need for investment. Since the manufacturing sector accounts for 11% of the approvals, FDI flows to the sector during the four years can be estimated at about US$77.4 million, which is too little to make a significant difference to the manufacturing sector, which requires a significant overhaul in plants and equipment.

FDI also becomes the most desirable option due to failure by domestic firms to access long-term lines of credit for capital expenditure. Most of the firms are not creditworthy due to a decade of infrastructure degradation, at a time when banks are also not in a position to offer long-term funding due to challenges in the financial system. Banks are struggling to get long-term lines of credit for lending to the manufacturing sector due to limited sources of funds and they have also proved unable to transform short-term deposits, which constitute the bulk of total banking sector deposits, into long-term loans that can be used to fund production. Measures to make it easier for manufacturing sector firms to access long-term credit thus also need to be continuously explored.

2.3 Mining Sector Developments

Government Embarks on Developing a Mineral Policy

The Ministry of Mines and Mining Development is in the process of developing a Mineral Policy. To-date, the Ministry of Mines and Mining Development has held consultations with stakeholders in Masvingo, Bulawayo and Kadoma, with a view to solicit views and enhance stakeholder by-in on the draft policy. More stakeholder consultations are planned for other mining centres across the country. The draft policy proposes to establish an internationally competitive stable and conducive business climate to attract foreign and local investment, while ensuring equitable distribution of benefits from mining activities to meet current and future needs. The Mineral Policy will be supported by an accessible web-based mining survey to enhance transparency in the awarding and monitoring of mineral rights.

The Draft Mineral Policy also seeks to increase State participation in exploration, mining and selling of minerals. Under the new proposal, gold and platinum will be sold through State-appointed authorised dealers. Other minerals would be sold via the Minerals Marketing Corporation of Zimbabwe (MMCZ). This development is likely to bring inefficiency and lower profitability to the mining industry since the price would have been determined by only one state authorised dealer. There are also considerations on regulating the amount of coal and iron ore to be mined, as well as setting prices to these strategic minerals for the local market. However, in as much as regulation is important, there is need to let market forces determine the price and production level, so as to improve efficiency.

Blanket Mine Second Quarter Gold Production Up

In the gold mining sector, Blanket Mine has announced that gold production has increased by 10.7% to 11,592 ounces of gold for the second quarter of 2013 from 10,472 ounces recorded in the first quarter of 2013. During the second quarter of 2012, 11,560 ounces of gold were produced, showing a 0.3% increase in gold production in the same period this year. Similarly, the mine increased its first half year production level by 6.5% from 20,717 ounces to 22,064 ounces of gold in the first six months of 2013, as compared to the same period in 2012.

Bindura Nickel Corporation Struggling to Raise Additional Funding

Bindura Nickel Corporation (BNC) has announced that it has been unable to raise additional funding through debt to finance phase two of the restart of Trojan Mine. The company restarted operations in the last quarter of 2012, after raising US$23 million through a right issue and delivered the first nickel concentrate to South Africa in April 2013. The difficulties have been attributed to the negative sentiments associated with the falling nickel price coupled with the challenging capital markets.

2.4 Agriculture Sector Developments

2.4.1 Tobacco Sales

Seasonal tobacco sales hit a high of 155,944,593 kg as at 28 June 2013, compared to the 129,078,112 delivered during the same period in the last season. The tobacco was delivered at an average price of US$3.70/kg, which is a cent lower than the price that prevailed same time last year. This saw farmers raking in US$576.4 million in revenue, compared to the US$478.7 million they earned same time in the last season.

Table 2: Year to date Tobacco Deliveries by Province

Province	Growers #	Mass	USD	USD/kg	Hectares	Yield (kg)
Mashonaland West	24,955	53,246,045	197,503,251.93	3.71	29,615	1,797.9
Mashonaland Central	24,758	43,086,389	158,546,957.93	3.68	27,551	1,563.9
Mashonaland East	13,345	34,987,890	132,260,031.93	3.78	18,880	1,853.2
Manicaland	14,634	24,171,018	86,539,210.93	3.58	16,301	1,482.8
Midlands	263	359,776	1,249,862.00	3.47	620	580.3
Masvingo	151	76,988	238,534.00	3.10	127	606.2
Matabeleland	2	16,490	73,081.00	4.43	10	1,649.0
Grand Total	**78,108**	**155,944,594**	**576,410,929.72**	**3.70**	**93,104**	**1,675.0**

Source: Tobacco Industry Marketing Board

Based on the deliveries shown in Table 2, Mashonaland West contributed 35% of all the deliveries made so far in the current marketing season while Mashonaland Central and Mashonaland East delivered 28% and 22% of the tobacco, respectively. 15% of the deliveries were from Manicaland and the balance in Matabeleland, Masvingo and Midlands, respectively. As shown in Table 2, high production is explained by the number of growers, hectarage planted and the yield per hectare. The other reason could also be the varying climatic conditions for tobacco production across the provinces. Production in Matabeleland is very low as there are only 2 growers despite the high yield per hectare which ranks third in the 7 provinces presented in Table 2. Table 2 also shows that the highest prices were offered in Matabeleland, possibly due to lack of competition at US$4.43/kg and the least price of US$3.10 was offered in Masvingo.

2.4.2 Cotton Marketing

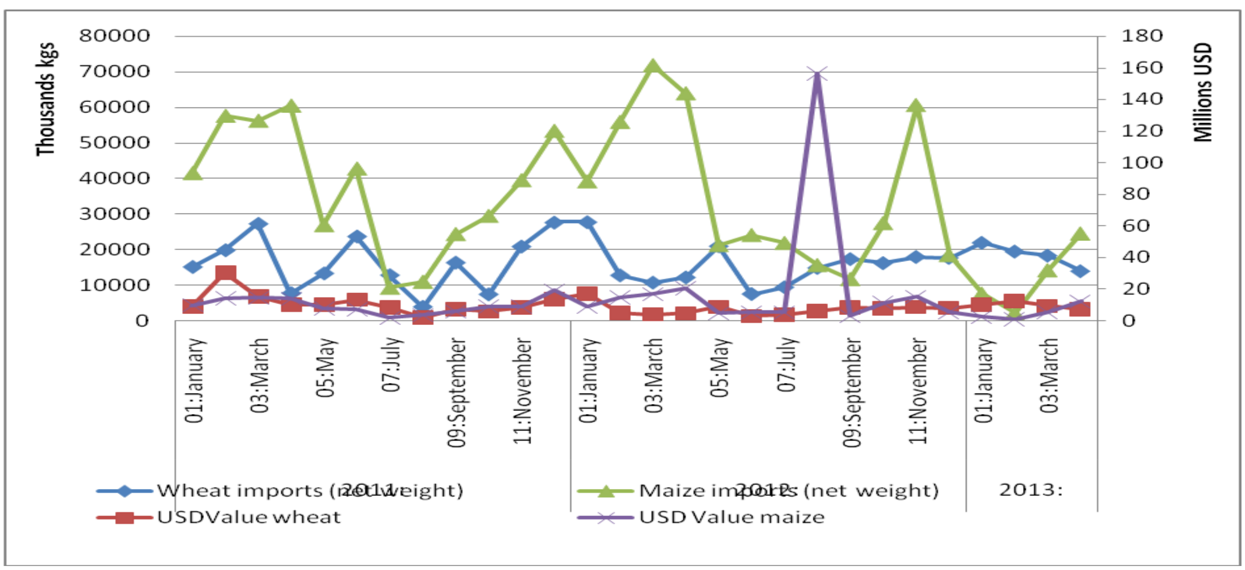
The cotton marketing season commenced in the third week of May 2013, with a total of 344 buying points operational in cotton growing areas. Fifteen buyers registered to buy cotton in the areas they supported cotton production through contract farming. These are Alliance, Cargill, Chinatex, Cottco, CotZim, Insing, Jinmac, Fahad, Grafax, Olam, Viridis, Parrogate, Romsdale, Sino Zim and Southern Cotton. AMA set the minimum prices for seed cotton at US$0.41/kg for grade A cotton, US$0.38 for grade B, US$0.36 and US$0.35 from grades C and D, respectively.

According to the Agricultural Marketing Authority (AMA), farmers had delivered a total of 1,415,925 kg to the common buying points by 31 May 2013. As at 7 June 2013, a total of 10,985,970 kg of seed cotton had been delivered at prices that are slightly above those set by AMA, ranging from US$0.38-US$0.44/kg. On 14 June 2013, deliveries had increased by 28% to 14,044,537 kg and were sold at prices that ranged between US$0.38-US$0.45/kg. Competition amongst buyers, in addition to stable international cotton prices, influenced the higher prices as compared to those set by AMA. The Zimbabwe Farmers' Union has, however, reported rampant side marketing, which is being fuelled by the price wars amongst the buyers. This breach of contracts by the farmers decreases their ability to obtain future financing. AMA has stepped in by increasing fines it charges merchants who promote side marketing from the previous US$20 per bale to US$100 per bale, as it is believed this charge will chew into their margins.

2.4.3 The Food and Nutrition Security Policy for Zimbabwe Launched

The government of Zimbabwe launched the Food and Nutrition Security Policy in May 2013. Its goal is to promote and ensure adequate food and nutrition security for all people at all times in Zimbabwe, particularly amongst the most vulnerable groups of the society. Agriculture and food security is one of the 5 commitments governing the Food and Nutrition Security Policy. The success of the newly launched policy will, however, depend on the finalization and effective implementation of the Agricultural Policy, which is still in its draft form. The country recorded a 25% increase in people who cannot meet their own food requirements between 1995 and 2011. Further, the country continues to face persistent levels of malnutrition, where 33.8% of children are chronically malnourished. This scenario is exacerbated by food insecurity and deepening poverty in the country. The country has become a net food importer for over a decade now as agriculture production remains critically low. Figure 9 shows the country's maize and wheat imports between 2011 and April 2013. It is clear that local production is low, and hence the deficit needs to be reduced through imports.

Figure 9: Quantities and Value of Wheat and Maize Imports Between 2011 and 2013



Source: ZIMSTAT

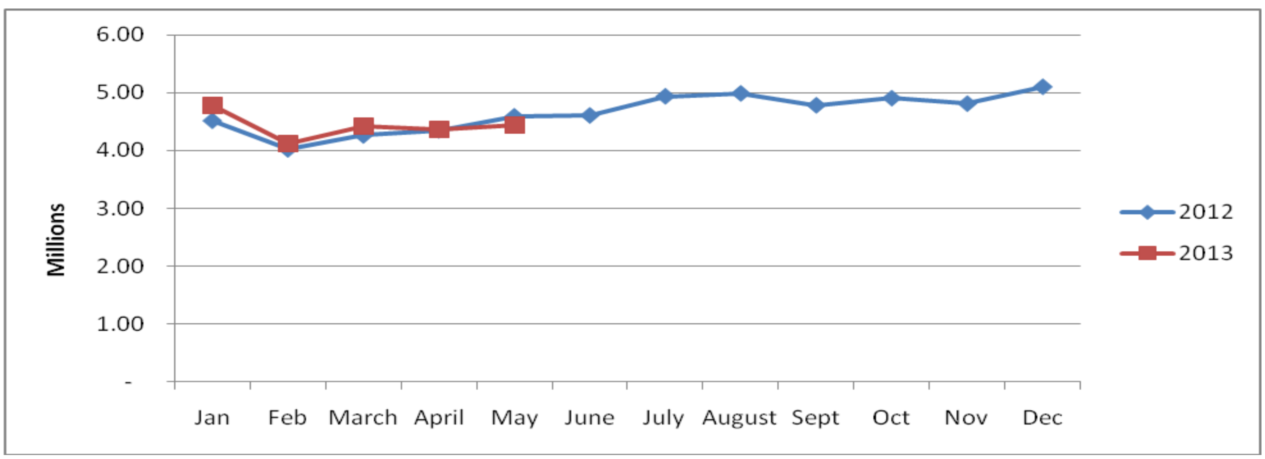
2.5.4 Wheat Production

The 2013 National Budget announced that 9,105 tonnes of wheat seed were available for this year's wheat cropping season. The ZIMSTAT figures show that in April 2013, a total of 2,420 tonnes of wheat worth US$ 1,179,014.54 were imported from South Africa to augment the seed stocks. A total output of 17,400 tonnes is expected this season, down from the 53,000 tonnes produced in 2011 (2013 National Budget). This is against an annual national requirement of 450, 000 tonnes. Poor wheat production is attributed to low yield. According to the Ministry of Agriculture, wheat had an average yield of 5t/ha between 1990 and 2003, but this fell significantly to around 1.1t/ha in 2008 and in 2011 it was around 3.3t/ha. Inadequate funding for winter cropping through provision of farming inputs and irrigation equipment, in addition to erratic power supply, explain the low production. National bakeries can assist wheat farmers by providing inputs and technical support through contract farming in order to boost wheat production in the country and reduce reliance on imports.

2.5.5 Milk Production

While the country requires an annual supply of 180 million litres of milk, figures from the Dairy Services reveal that only 55.9 million litres were produced in 2012 while 22.1 million litres have been produced as at 31 May 2013 (Figure 10).

Figure 10: Milk Production



Source: Dairy Services

The 2013 Budget Statement projected this year's production to reach 70 million litres, given the increased number of lactating cows by 4% to 12,500 cows in 2013. Very low milk production is partly explained by a decline in the number of dairy farms as well as the average daily milk production per cow. The average daily milk production per cow has declined from 25 litres to about 10 litres in the past decade as farmers cannot meet the high feeding costs. According to the Ministry of Agriculture, the dairy industry produced 300 million litres of milk with 383 registered dairy farms and the national dairy herd was 104,483 head, including 53,073 milking cows at its peak in 1994. Restocking of milking cows and improving viability of dairy farming through provision of business development support can go a long way in resuscitating the sector.

2.5 Banking and Other Financial Sector Developments

2.5.1 Overview of the Banking Sector

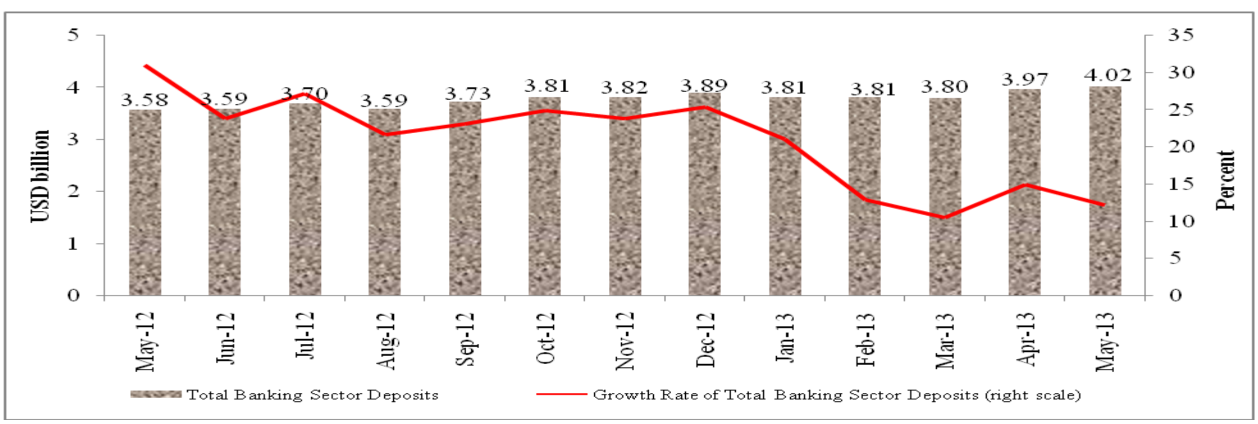
Total banking sector deposits continue to increase despite uncertainty surrounding elections. As at May 2013, total banking sector deposits stood at US$4.02 billion. By and large, lending rates compare favourably with the mean lending rates for the first quarter. Credit to the private sector, as a share of total domestic credit has remained high. The Bankers' Association of Zimbabwe (BAZ) completed the framework for setting up a credit bureau and now awaits regulatory approval by the Ministry of Finance and Reserve Bank of Zimbabwe (RBZ). Credit bureaus are an important element of the financial system and are expected to overcome adverse selection due to asymmetric information between borrowers and lenders.

However, the continuous extension of the curatorship period for Interfin Bank from 11 June 2012 to 31 December 2014 is a cause for concern. It is a cost to depositors and creditors as their funds remain locked up in the bank and negatively affect depositor confidence in the banking system. The continuous extension of curatorship militates against other efforts that are being pursued in the mobilisation of funds into the formal banking system.

2.5.2 Total Banking Sector Deposits

As at May 2013, total banking sector deposits, net of inter-bank deposits, stood at US$4.02 billion, while at the end of the first quarter in March 2013, they stood at US$3.80 billion (Figure 11). The deposit level of US$4.02 billion in May 2013 is the highest since the beginning of the multicurrency system in February 2013.

Figure 11: Level & Growth of Total Banking Sector Deposits



Source: RBZ Monthly Economic Review, May 2013

The structure of deposits in May 2013 was as follows (Table 3): demand deposits (US$2.05 billion); savings & short-term deposits (US$1.30 billion) and long-term deposits (US$0.68 billion). In comparison with the end of the first quarter in March 2013, demand deposits and long-term deposits have increased while savings & short-term deposits have declined.

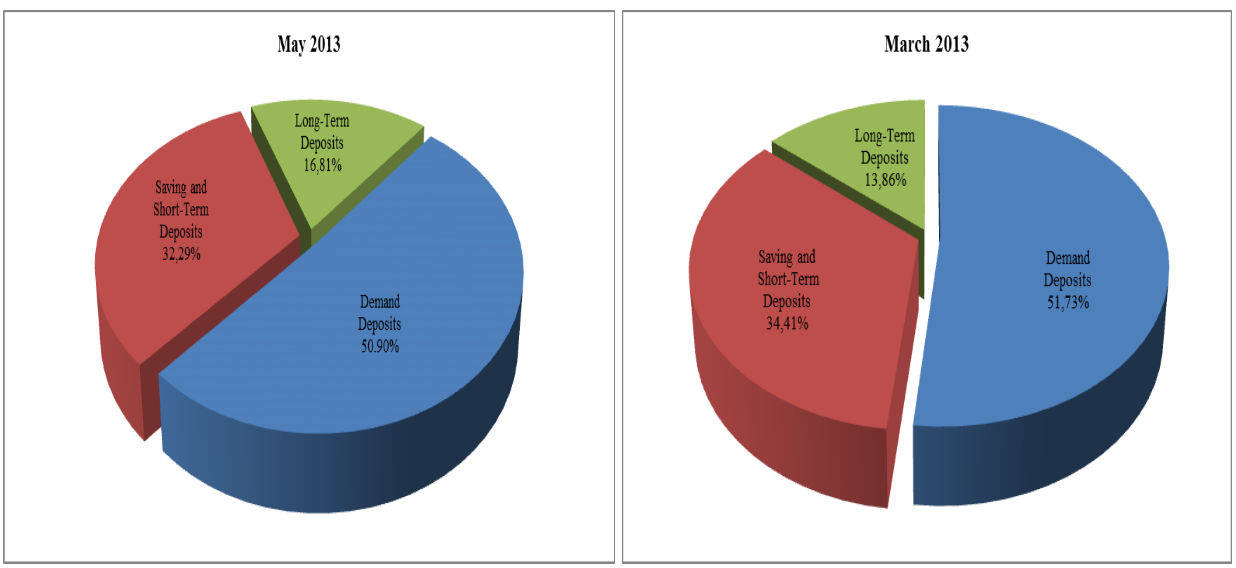
Table 3: Total Banking Sector Deposits (US$ Billion)

Type of deposit	March 2013	April 2013	May 2013	Monthly increase (Absolute) USD billion	Monthly increase (percent)
Demand Deposits	1.97	2.09	2.05	(0.04)	(1.98)
Saving and Short-Term Deposits	1.31	1.35	1.30	(0.06)	(4.14)
Long-Term Deposits	0.53	0.53	0.68	0.15	28.29
Total Deposits	**3.80**	**3.97**	**4.02**	**0.05**	**1.30**

Source: Reserve Bank of Zimbabwe Monthly Economic Review

As of May 2013, the composition of deposits was as follows (Figure 12): demand deposits (50.90%), savings & short-term deposits (32.29%) and long-term deposits (16.81%). Compared to the end of the first quarter in March 2013, the composition of long-term deposits has increased from the 13.86%, while that of demand and short-term and savings deposits has declined.

Figure 12: Composition of Total Banking Sector Deposits, March and May 2013



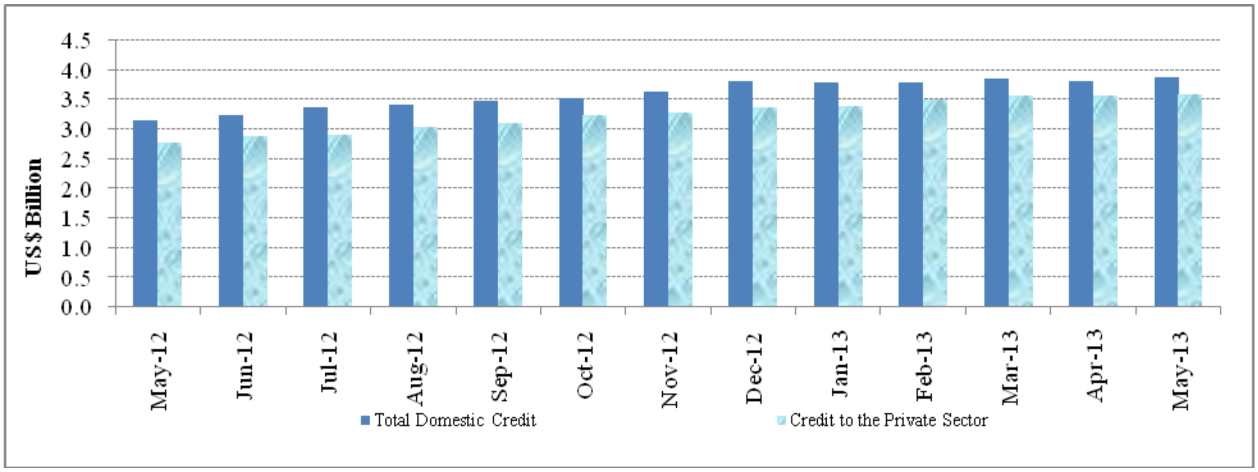
Source: RBZ Monthly Economic Review, May 2013

Banks in Zimbabwe have always cited that they are constrained by the short-term and transitory nature of deposits in extending long-term loans. The increase in the composition of long-term deposits is commendable, as it would enable banks to fund long-term investments needed to recapitalize industries. Although in principle banks should be able to transform short-term deposits into long-term loans, this has been limited in Zimbabwe. This is against the background of other constraints facing the sector such as political and economic uncertainty, among other factors, which discourage long term investments.

2.5.3 Bank Credit to the Private Sector

In April and May 2013, credit to the private sector was US$3.57 billion and US$3.60 billion, respectively (Figure 13). At the end of the first quarter in March 2013, credit to private sector was US$3.62 billion. Thus, there has been a slowdown in credit extended to the private sector by banks.

Figure 13: Bank Credit to the Private Sector



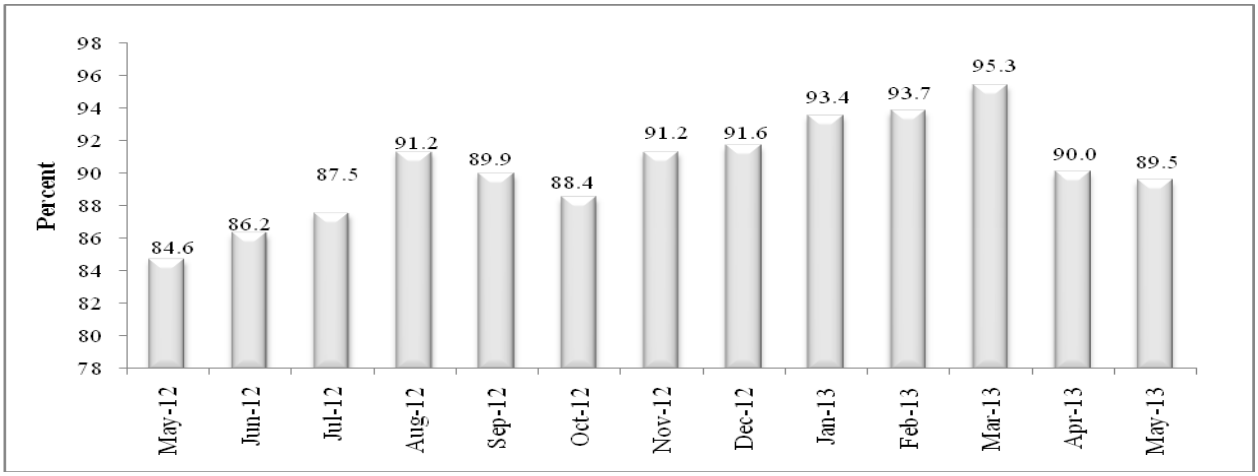
Source: RBZ Monthly Economic Review, May 2013

The proportion of private sector credit to domestic credit has also declined in the second quarter to 93.7% and 92.9% in April and May, respectively, from above 94.0% in the first quarter of 2013.

2.5.4 Bank Loan-to-Deposit Ratio (%)

As at May 2013, the loan-to-deposit ratio stood at 89.5% (Figure 14). At the end of the first quarter in March 2013, the loan-to-deposit ratio was 95.3%, which is the highest since January 2011. In the second quarter, the loan-to-deposit ratio declined from 90.0% in April 2013 to 89.5% in May 2013.

Figure 14: Loan-to-Deposit Ratio



Source: RBZ Monthly Economic Review

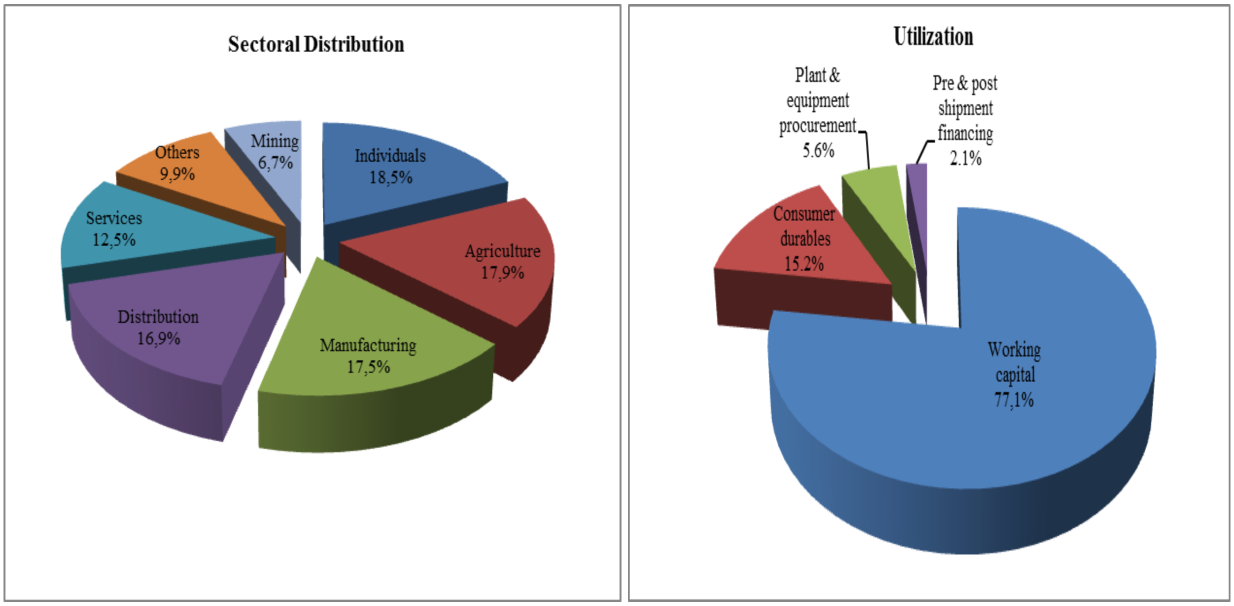
The decline in the loan-to-deposit ratio shows that banks are being more conservative in their lending strategies. This is commendable given that in the first quarter the loan-to-deposit ratio was outside the internationally recommended 70-90% loan-to-deposit range. Although banks are committing a large portion of their deposits for on-lending, the bulk of the loans are short-term, making it difficult to finance long-term capital investments which require long-term loans.

2.5.5 Composition of Private Sector Credit

As at May 2013, loans and advances to the private sector were distributed as follows (Figure 15): Individuals (18.5%); Agriculture (17.9%); Manufacturing (17.5%); Distribution (16.9%); Services (12.5%); Other Sectors (9.9%) and Mining (6.7%). As from March 2013, at least 17.5% of total loans and advances were advanced to individuals. This development is unfavourable for long-term economic growth as individuals generally borrow for consumptive purposes. Out of the 18.5% loans & advances extended to individuals, 15.2% was utilized for consumer durables. This development could be a consequent of the interest rate structure currently in use in the banking system where individuals are charged higher interest rates than corporates. While such an interest rate structure is ideal to discourage consumptive borrowing by individuals, the outcomes also suggest that banks now have more incentive to lend to individuals than to corporates, an outcome that defeats the idea of promoting productive sectors.

Notwithstanding the above, some market information suggests that some of the individual borrowers are financing Micro-Small Scale Enterprises projects, which is favourable for economic development, income generation and job creation. In Zimbabwe, small-scale enterprises have shown high potential for growth.

Figure 15: Sectoral Distribution and Utilization of Commercial Bank Loans & Advances May 2013



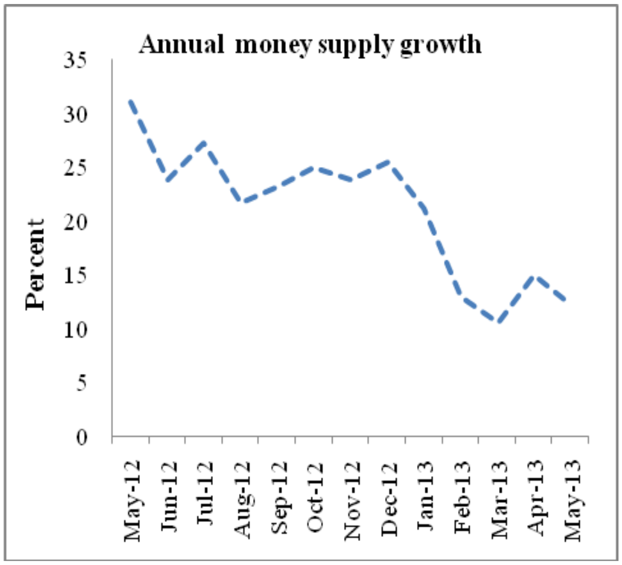
Source: RBZ Monthly Economic Review

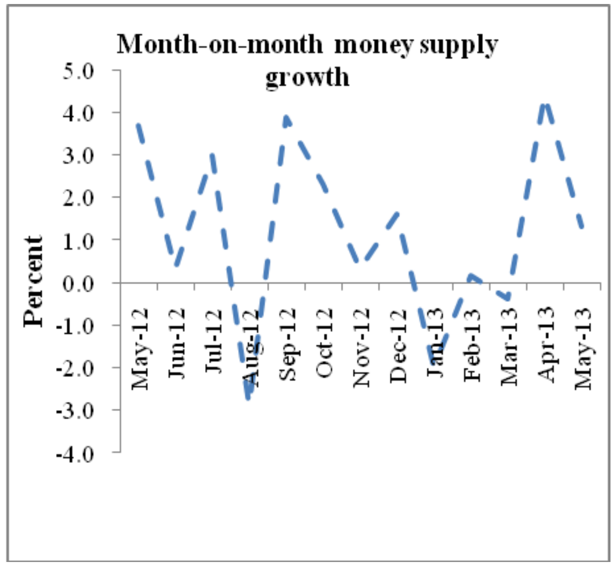
Loans and advances that were channelled to the private sector in May 2013 were utilized as follows (Figure 15): working capital (77.1%); consumer durables (15.2%); plant and equipment procurement (5.6%) and pre and post-shipment financing (2.1%). Although most of the loans and advances were utilized for productive purposes, less of the loans and advances were used for fixed investment activities. More funding in fixed investment activities is desirable for the rebuilding of the industry's infrastructure in a bid to improve production and competitiveness in the economy.

2.5.6 Money Supply Developments

Annual growth in broad money supply (M3), defined as total banking sector deposits (net of inter-bank deposits), stood at 14.9% in April 2013 and 12.2% in May 2013 (Figure 16). This compares with the average annual M3 growth of 14.8% in the first quarter of 2013. At the beginning of the second quarter in April 2013, the annual growth rate in total bank deposits reversed the continuous decline recorded over the first quarter of 2013. On a month-on-month basis, M3 growth was 4.4% in April 2013 and 1.3% in May 2013. The average growth rate for April and May 2013 of 2.8% compares with an average M3 growth of -0.8% recorded in the first quarter of 2013.

Figure 16: Broad Money Supply (M3) Growth





Source: RBZ Monthly Economic Review, May 2013

Generally, there has been a marked decline in annual growth rates of deposits in 2013 compared with 2012. In 2012, annual growth rates in deposits averaged 33.6% in the first five months while the average was 14.3% for the first 5 months of 2013. This is attributable to, among other factors, economic uncertainty surrounding elections, weak aggregate demand in the economy and an adverse current account balance. While higher growth rates were experienced in the previous years at the beginning of the multicurrency period, these growth rates reflect growth from a low base. The low rates that are currently obtaining are consistent with the level of economic activity.

2.5.7 Interest Rate Developments

In the first quarter of 2013, mean weighted average lending rates were as follows: commercial (individuals) 14.91%; commercial (corporates) 10.51%; merchant (individuals) 17.90% and merchant (corporates) 14.38%. In the second quarter, in April and May 2013, interest rates compare favourably to the respective mean lending rates recorded in the first quarter, except for the merchant corporate lending rate for May 2013 (Table 4). The commercial bank three-month and savings deposit rates for the first quarter and the second quarter remained at the November 2012 levels of 12.0 and 4.1, respectively.

Table 4: Interest Rate Levels (Percent per Annum), May 2012-May 2013

End period	Commercial banks lending rates			Merchant banks lending rates			3-Month deposit rate	Savings deposit rate
	Nominal rate	Weighted average		Nominal rate	Weighted average			
		Individuals	Corporates		Individuals	Corporates		
May-12	6.00-30.00	14.98	11.86	15.00-30.00	15.78	14.47	5.20.00	0.00-12.00
Jun-12	6.00-35.00	13.81	11.58	15.00-30.00	17.86	14.04	5-20.00	0.00-12.00
Jul-12	6.00-35.00	14.32	10.88	15.00-30.00	17.92	13.93	5-20.00	0.00-12.00
Aug-12	6.00-35.00	15.65	10.74	15.00-30.00	17.94	13.95	5-20.00	0.00-12.00
Sep-12	6.00-35.00	13.25	11.14	15.00-30.00	17.98	13.92	5-20.00	0.00-12.00
Oct-12	6.00-35.00	13.35	11.03	13.00-30.00	17.98	13.95	5-20.00	0.00-12.00
Nov-12	6.00-35.00	15.25	10.88	13.00-25.00	17.91	14.42	4-20.00	0.15-8.00
Dec-12	10.00-35.00	15.08	10.40	15.00-25.00	17.93	14.43	4-20.00	0.15-8.00
Jan-13	10.00-35.00	15.58	10.81	13.00-25.00	17.96	14.42	4-20.00	0.15-8.00
Feb-13	10.00-35.00	14.83	10.53	13.00-25.00	17.93	14.36	4-20.00	0.15-8.00
Mar-13	6.00-35.00	14.32	10.19	14.00-25.00	17.80	14.35	4-20.00	0.15-8.00
Apr-13	3.00-35.00	14.58	9.66	14.00-25.00	17.77	14.35	4-20.00	0.15-8.00
May-13	9.00-35.00	14.25	9.89	13.00-23.00	17.66	17.02	4-20.00	0.15-8.00
Average		**14.56**	**10.74**		**17.72**	**14.43**		

Source: RBZ Monthly Economic Review, May 2013

Generally, there does not seem to be a positive change in lending and savings rates, following the signing of a Memorandum of understanding (MOU) between banks and the RBZ, except if the changes are within the wide ranges in quoted interest rates.

In April and May 2013, transaction values processed through the Zimbabwe Electronic Transfer Settlement System (ZETSS), cheques, cards and mobile & internet increased compared to the respective averages recorded in the first quarter of 2013 (Table 5).

Table 5: ZETSS, Cheques, Card, Mobile and Internet Transaction Activity ((US$ Million)

Month	ZETSS	Cheque Values	Card Values	Mobile & Internet
May-2012	3,237.4	5.0	189.6	82.0
June-2012	3,407.3	6.5	177.7	93.5
Q2: 2012	**3,197.7**	**5.7**	**175.9**	**81.4**
July-2012	3321.0	6.7	169.1	135.6
Aug-2012	3417.3	6.1	218.4	98.3
Sep-2012	3043.2	5.6	235.5	149.2
Q3: 2012	**3,260.5**	**6.1**	**207.7**	**127.7**
Oct-2012	3630.7	6.6	232.9	196.9
Nov-2012	3526.0	5.9	240.8	197.3
Dec-2012	3,584.7	5.0	308.9	220.3
Q4: 2012	**3,580.5**	**5.8**	**260.9**	**204.8**
Jan-2013	3,563.8	5.2	254.4	205.2
Feb-2013	2,968.0	5.5	260.5	199.3
Mar-13	3,340.0	15.2	312.4	220.6
Q1:2013	**3290.6**	**8.6**	**275.8**	**208.4**
Apr-13	3,535.6	16.6	328.2	283.6
May-13	3,915.3	15.4	332.6	364.0

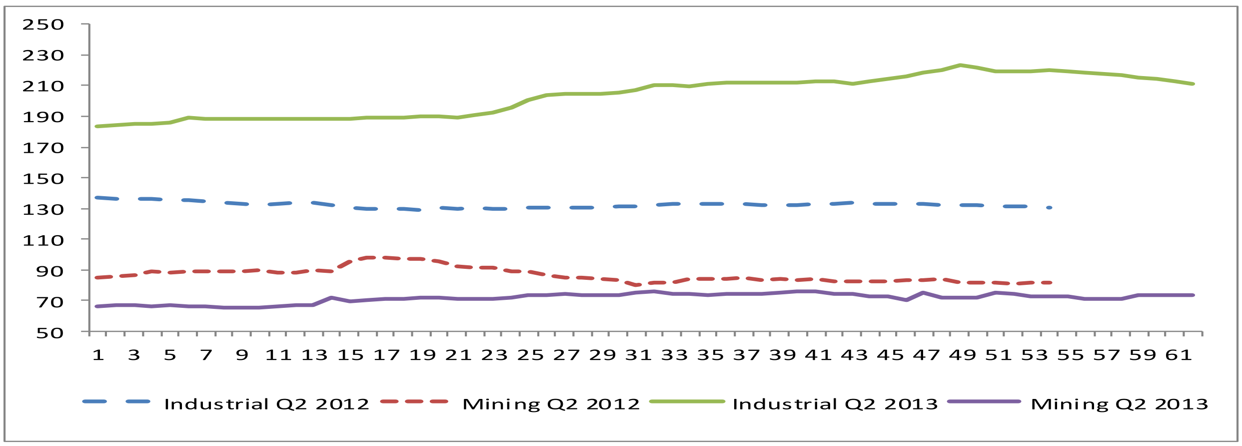
Source: RBZ Monthly Economic Review, May 2013

The increase in transaction values recorded in the second quarter of 2013 is reflective of an increase in economic activity.

2.6 Stock Market Developments

The industrial index opened the second quarter of 2013 at 183.37, reaching an all-time high of 223.58 before closing the quarter trading at 211.19. The performance of the industrial index was mainly driven by uncertainty over the pending elections and renewed confidence by foreign investors on the local bourse. Thus, the industrial index surpassed its performance in a comparable period last year averaging 203.61 in the second quarter of 2013 as compared to an average of 132.22 in the second quarter of 2012. Figure 17 shows the trend in both the industrial and mining indices in the Second Quarters of 2012 and 2013.

Figure 17: Industrial and Mining Indices: Second Quarter 2012 and 2013



Source: Zimbabwe Stock Exchange (2013)

The mining index opened the quarter at 66.19 and closed at 73.29 gaining 10.7 percentage points. Despite the marginal gains the index failed to surpass its performance in the second quarter of 2012, averaging 71.53 in 2013, as compared to 86.43 in 2012.

Table 6 below summarises the performance of the stock market in the second quarter of 2012 and 2013. Thus, it shows that there was a decline in stock market activities in the second quarter of 2013 as compared to a comparable period last year as turnover value and turnover volume both declined by 26.24% and 63.76%, respectively. However, there was resurgence in foreign participation on the local bourse as the value and volume of shares bought by foreigners increased by 12.74% and 13.61%, respectively while the value and volume of shares sold by foreigners declined by 45.95% and 73.03%, respectively. Thus, this showed renewed confidence by foreigners on the stock market in Q2 2013 as compared to Q2 2012, despite uncertainty over elections to be held later this year.

Table 6: Summary ZSE statistics Second Quarter 2012 and 2013

	Q2 2012	Q2 2013	Percentage Change
Turnover value (USD)	138,509,459.77	102,165,355.48	(26.24)
Turnover volume	1,450,388,836.00	525,653,090.00	(63.76)
Foreign bought (USD)	51,914,630.51	58,528,374.25	12.74
Foreign sold (USD)	41,664,016.61	22,520,474.50	(45.95)
Number of shares bought by foreigners	150,424,341.00	170,892,783.00	13.61
Number of shares sold by foreigners	285,439,113.00	76,968,955.00	(73.03)
Market capitalization (USD)	3,341,457,429.00	5,436,574,788.00	62.70

Source: Zimbabwe Stock Exchange (2013)

Despite the decline in stock market activities, market capitalisation grew by 62.70%, from US$ 3.34 billion in Q2 2012 to US$5.44 billion in Q2 2013, while share turnover velocity (ratio of turnover value to market capitalisation) declined to 1.88% in Q2 2013 from 4.15% in Q2 2012, indicating that the increase in market capitalisation has been as a result of the increase in the price of shares rather than the increase in turnover volume.

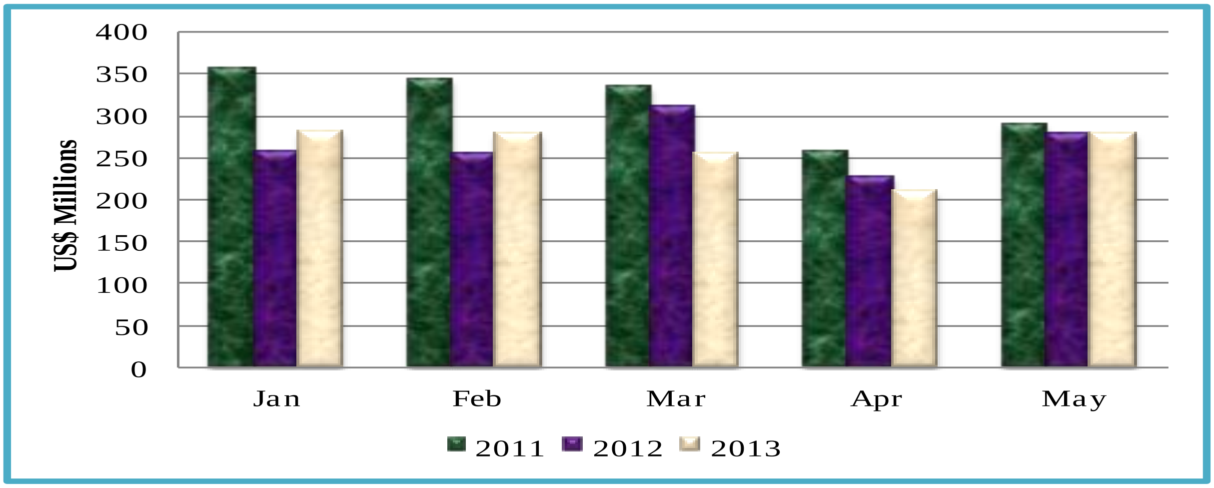
Meanwhile, the second quarter of 2013 saw a number of counters being either suspended or being delisted on the Zimbabwe Stock Exchange for failure to comply with the stock market listing rules. The following companies were suspended from trading at the stock market: Apex Corporation Limited (suspended with effect from 11 June 2013 for an initial period of 30 days) and Trust Holding. The following companies were delisted, namely Gulliver Consolidated Limited, Steelnet (Zimbabwe) Limited, Lifestyle Holdings Limited, Barbican Holdings Limited, Trans Zambezi Industry (TZI) Limited and Red Star Holdings Limited. Following these changes, the stock market is now left with 65 active counters trading.

In regional developments, the Johannesburg Stock Exchange (JSE) All Share Index opened the second quarter at 40041.32, shedding 1.16 percentage points to close at 39578.1, whilst the Namibia Stock Exchange (NSE) overall index opened at 966.15, shedding 9.69 percentage points, to close the quarter at 872.51.

2.7 External Sector Developments

During the five months to May 2013, goods and services worth about US$3.2 billion were imported, constituting an increase of about 23% compared to the same period in 2012. On the other hand, exports worth about US$1.3 billion were recorded during the same period, a decrease of about 2% compared to the same period in 2012. As a result, a trade deficit of about US$1.9 billion was recorded during the five months to May 2013, an increase from the value of about US$1.3 billion recorded during the same period in 2012. In general, exports are showing a declining trend since 2011 (Figure 18), thereby contributing adversely to the trade deficit.

Figure 18: Exports performance for Zimbabwe, January to May 2011-2013

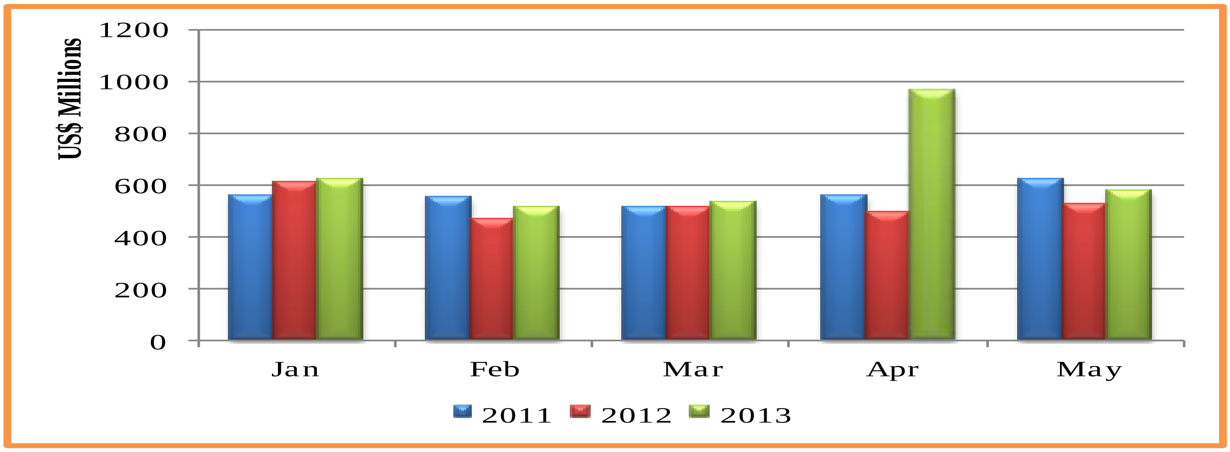


Source: ZIMSTAT

Exports in Zimbabwe are heavily dominated by primary products. Primary mining products constituted about 60.6% of the exports during the first five months in 2013, a decrease from about 65.9% during the same period in 2012. Tobacco constituted about 9.7% of exports during the period under review, a decrease from about 10.4% during the same period in 2012. Thus, the economy has some competitive edge in these commodities in the international market, a factor which can be used to the country's advantage in exporting value added products from these primary commodities.

The trade deficit was further worsened by imports, which show an increasing trend since 2011 (Figure 19). Although dominated by some few commodities, imports are better spread across several products than exports. The main drivers of the huge import bill during the period January to May 2013 include fuel, which constituted about 15.2% of total imports, fertiliser constituting about 15.7% of the imports and motor vehicles (including goods vehicles and trucks), which constituted about 8.2% of the imports.

Figure 19: Imports performance for Zimbabwe, January to May 2011-2013



Source: ZIMSTAT

Imports uncharacteristically peaked in April 2013, which saw a departure from the normal trend. Statistics reveal that this was driven by a sudden demand for fertilizers in April 2013, to levels that are significantly higher than those recorded in May and March. Fertiliser imports constituted over 46 percent of imports in April 2013, departing significantly from the 2.6 percent of imports recorded in both May and March 2013. This trend is also different from the 2012 trend as fertiliser imports constituted only 2 percent of total imports in April 2012.

Zimbabwe has maintained the same trade partners from 2012 in 2013. About 73% of Zimbabwe's exports during the first five months went to South Africa, which is an increase compared to about 66% recorded during the same period in 2012. Exports to the United Arab Emirates (UAE) decreased from about 22.5% recorded during 2012 to only about 6.7% during the same period in 2013. Exports to the UAE are mostly in the form of unprocessed diamonds and the trend could have been affected by the positive developments in the mining sector, which saw Zimbabwe being given the right to sell diamonds without being monitored under the Kimberly Certification Scheme to all players in the world. Top five export destinations in Zimbabwe during the period under review in 2012 were South Africa, UAE, Mozambique, Belgium and Zambia. However, in 2013 China replaced Belgium in the top five export destinations (Table 7).

Table 7: Key Partners for Zimbabwe Exports, Jan-May 2012 and 2013

Country	Share of Exports, 2012 (%)	Share of Exports, 2013 (%)
South Africa	66.2	72.5
United Arab Emirates	22.5	6.7
Mozambique	3.8	9.6
Zambia	2.2	3.6
Belgium	2.5	1.6
China	0.2	2.3

Source: ZIMSTAT

South Africa remains the most preferred source for imports, while the United Kingdom is second. Other preferred countries include China, Zambia and India (Table 8). The United States also managed to replace Kuwait among the top five countries exporting into Zimbabwe in 2013.

Table 8: Key Partners for Zimbabwe Imports, Jan-May 2012 and 2013

Country	Share of Imports, 2012 (%)	Share of Imports, 2013 (%)
South Africa	42.7	47.2
United Kingdom	16.2	17.6
Kuwait	5.8	0.5
China	5.6	5.4
Zambia	5.5	3.9
India	3	2.5
United States	1	3.3

Source: ZIMSTAT

2.8 Tourism Developments

Statistics from the Zimbabwe Tourism Authority (ZTA) 2012 annual report show improvements in tourism performance, with receipts having increased by 13% to reach US$749 million in 2012, from US$662 million in 2011. This increase is largely attributed to improved expenditure patterns by tourists who visited the country. The total number of tourist arrivals however, declined by 26% to 1,794,230 in 2012. The majority of the tourist arrivals were mainly for holiday purposes, (Table 9).

Table 9: Purpose of Visits

Purpose of visit	2012	2011
Business	348,996	371,944
Education	19,748	44,894
Shopping	128,378	76,166
Holiday	1,244,441	1,892,868
Others	52,667	37,408
Total	**1,794,230**	**2,423,280**

Source: Tourism 2012 Annual Report.

Against improved expenditure patterns by tourists, tourism contribution to GDP increased by 1.7% to 5.2% in 2012. Furthermore, tourism contribution to employment also went up by 2.3%, to 7.8% in 2012.

Domestic tourism continues to play a key role in the performance of the tourism sector. The 2012 tourism statistics show that the share of local hotel and lodge participation increased by 1% and 4%, respectively. The increased performance of the domestic tourism market has largely been attributed to the increase in conference tourism. Government departments, nongovernmental organisation and other private sector organisation are convening conferences, workshops and training, which are mostly attended by locals.

However, the sector continue to face challenges in attracting foreign tourists, having seen arrivals dropping by 629 050, to 1,794,230 in 2012. Of the tourist arrivals, 87% were from Africa followed by Europe (6%), America (3%), Asia (2%), Oceania (1.2%) and Middle East (1%). The fall could be attributed to low competitiveness of Zimbabwe's tourism sector. According to the 2013 Travel and Tourism Competitiveness Index (TTCI), Zimbabwe's travel and tourism industry is currently ranked 118 out of 140 countries surveyed. Although this was an improvement from 119 recorded in 2011, the country's ranking remains weak (Table 11).

Table 10: Zimbabwe's Travel and Tourism (T&T) Ranks

Year	T &T World ranks(out of 140)	T&T Sub-Sahara ranks (out of 31)	Score (1-7)	T&T Regulatory Framework	Business Environment and Infrastructure	T&T Human, Cultural and Natural Resources
2013	118	15	3.3	117	116	101
2011	119	15	3.3	118	120	96
2009	121	30*	3.2	125	125	109

*Source: Travel and Tourism Competitiveness 2013 Report, * for Middle East and Africa (out of 40 countries)*

In Sub-Saharan Africa, Zimbabwe is ranked 15 out of 31 countries. The TTCI is computed by the World Economic Forum. The index is based on three broad categories of variables that drive travel and tourism competitiveness. These categories are summarized into the three sub-indexes shown in Table 10. Of the three sub-indexes, Zimbabwe is ranked better on Travel and Tourism Human Cultural and Natural Resources, signalling that the country is endowed with natural resources, attractive tourism destinations and the human resources to promote and support the tourism industry.

2.9 Trade Relations Developments

The Fourth Meeting of the Committee on Customs Union

The Common Market for Eastern and Southern African (COMESA) Committee on Customs Union held its fourth meeting between 10 and 12 June 2013 in Kampala, Uganda. Among other issues, the Committee met to discuss progress on the formation of the COMESA customs union, the outstanding issues thereof and country reports on the implementation of the customs union. Although Member States continued reporting progress and commitment to the customs union during the three-year transition period, it is clear that the implementation of the Council decisions relating to the Customs Union has been very low. Member states gave various reasons for not implementing the Council's decisions. These are listed below together with discussion made on addressing them.

Concerns listed by the member states and how they were addressed

Fear of loss of revenue: It also noted that whereas Customs duties still remain an important element in most countries in the region, they should not be the only parameter to be considered when discussing regional integration. There are other elements such as industrial development, social issues and investment, which should be taken into account. Member States may lose some revenue in the short-term, as a result of applying the CET and in order to at least partially address this, a COMESA Adjustment Facility (CAF) has been put in place.

Fear of closure of indigenous industries due to competition from imported goods: Article 61 of the Treaty provides for measures to protect local industries in case of any injuries. Moreso, COMESA Treaty recognizes that Member States are at different levels of development and are faced with a varied range of capacity, economic and developmental limitations. The Treaty, therefore, allows for variable speed and geometry, among Member States. In this regard, the meeting noted that this Treaty provision permits two or more member States to integrate further than other members, provided such arrangements aim to achieve the objectives of COMESA. In fact, the Customs Union is a stated objective of COMESA. Despite the provisions of the Treaty that provide for policy space, some Member States reiterated their positions that the fear of closure of indigenous industries due to competition from imported goods was real and that it needs practical measures to alley these fears. Others, however, said that the use of sensitive and excluded lists of products would help Member States to address concerns regarding closure of indigenous industries. While others added that competition was very healthy if regional industries are to develop, the meeting finally concluded that the Secretariat should continue working closely with Member States in addressing the above-mentioned fears as this was the only way countries would appreciate the importance of using alternative measures to address the above-mentioned concern.

Loss of sovereignty with regard to decision making: The meeting noted that working together as members of the region would be more beneficial compared to individual actions by each Member State. This would help Member States to combine their meager resources to address the challenges together. This means that in given areas, the governments of Member States will act collectively and with a common voice expressing a collective external position, thus becoming stronger as a bloc.

The need to create a 5% tariff band in the CET to cater for national interests: This issue was raised despite the fact that it had been discussed in earlier meetings, where Member States had appreciated the recommendations on this issue. Member States had been encouraged to carry out their own national studies on this. With the exception of Egypt, no other country had carried out the national studies. The meeting noted that three studies had been done on the issue of the 5% tariff band and that the studies advised against introducing the band. Moreover, the architecture of the Customs Union is such that there will be periodic reviews of the CET to take account of emerging issues. The meeting noted that five countries have a substantial number of tariff lines below corresponding CET duties and are finding it very difficult to move them upwards. This would require changes to their tariff structures. These countries are Libya (50%); Madagascar (32%); Mauritius (52%); Seychelles (37%) and Swaziland (36%), although Swaziland is not included in the analysis further below. In this regard, the affected Member States namely Egypt, Mauritius and Zimbabwe, argued that another study be conducted to further advice on the implication of revising the CET upwards on these Member States.

Tripartite FTA and the Customs Union Agenda at this point in time: The Fourth Extra-Ordinary Ministerial meeting in October 2012 observed that the Tripartite FTA and the COMESA Customs Union are complementary; therefore, Member States should take advantage of the tripartite negotiations to review and internalize all Council Decisions on the Customs Union and ensure that they are domesticated.

How to deal with Member States that belong to EAC Customs Union: It was highlighted that generally a country cannot belong to two different customs unions at the same time unless the two customs unions have the same common external tariff and a common customs law. In this regard, COMESA and the EAC Secretariat are currently engaged in discussion for the purpose of harmonizing their common external tariffs and their customs laws.

Lack of capacity, information and co-ordination on the ground: The Secretariat was urged to continue working closely with Member States to provide technical assistance in implementing the Council Decisions on the Customs Union. It was noted that the Secretariat is working closely with Member States through facilitating consultative workshops/meetings as well as outlining revised action plans to assist member states fulfill their commitments.

*The FTA is sufficient: S*ome Member States have taken the view that the FTA is sufficient and that there is no need to have the Customs Union. However, it was observed that this view does not adequately take into account the fact that the establishment of the Customs Union is an obligation on each Member State under the COMESA Treaty, and that the FTA by itself cannot and does not deal with certain policy harmonization and coordination programs that are required to reduce the cost of doing business in the region and to promote competitiveness and better utilization of the market access under both the FTA and the Customs Union. The meeting noted that the Customs Union assists in reducing the cost of doing business through the trade facilitation customs programs; simplification and standardization of documentation, standardization and modernization of customs processes and administrations through the Customs Management Regulations; policy coordination and harmonization among the Member States through various customs and industrial programs; and reduction of tariffs on the products while affording some protection to industries producing finished products by maintaining a reasonable rate of duty at 25%, subject always to affording relevant policy space to Member States as may be needed.

The Secretariat was therefore urged to work with Member States to address concerns raised above. On the other hand Member States should take advantage of the availability of policy space such as the lists of sensitive and excluded products to address some of the concerns that have been raised. Further, each Member State should take responsibility for organizing a national stakeholder workshop to produce clear positions, and should then report a clear decision on the Customs Union. The Secretariat will facilitate such workshops upon request.

3. COMMENTARY ON TOPICAL ISSUES

The Zimbabwe National Chamber of Commerce (ZNCC) National Congress Highlights

The ZNCC held a workshop under the theme "The Road Map to the Zimbabwe's Desired Future: Defining the Possibilities that Deliver Value" on 12-14 June 2013. The congress highlighted that the Zimbabwean economy is endowed with vast mineral resources and human skills, which are key enablers of competitiveness. The country is currently the second largest producer of platinum. Infrastructure such as electricity, roads, railways, air and information communication technology (ICT) is very critical to achieve competitiveness at national level. Exports are increasing at a slower rate than imports, resulting in a huge trade deficit. It is also sad to note that the period of Zimbabwe's crisis coincided with good performance in commodity prices such that the country lost a big opportunity. The country's external position also deteriorated as imports to exports ratio is almost 3:1, which means the country, is a major exporter of jobs, especially for consumption goods.

The MTP singled out infrastructure rehabilitation as key for the recovery of the economy but about 69% of the total budget was consumed by salaries in 2013, from 45% in 2009, resulting in crowding out of public investment and service delivery. The huge debt overhang at US$10.7 billion, with arrears accounting for 70% of debt is still deterring the country from fresh borrowings. Given that the country has very little fiscal space, capital expenditure suffers at the expense of recurrent expenditure. Currently, the country is off target in respect of the MTP capital expenditure target of 25% of total government expenditure. A summary of key issues which need to be addressed to improve competitiveness are summarised in Box 1.

Box 1: Way Forward

- Given the comparative advantage the country has with vast minerals, the country can form different clusters such as diamond cluster and platinum cluster. These clusters will form regional clusters and will become key drivers of competitiveness.
- Regional integration and trade facilitation is critical for the country to be fully integrated into regional and world markets.
- Addressing structural bottlenecks such as rehabilitation of infrastructure - power stations, railway lines and road construction is critical given that they are the key enablers to competitiveness.
- Need for reliable energy sources especially electricity.
- Strengthening fiscal management to improve the expenditure mix.
- Debt relief through Zimbabwe Accelerated Arrears Clearance and Debt Development Strategy (ZAADS) of March 2012 to deepen engagement with both creditors and development partners.
- Implementation of economic blue prints is critical for the country to recover fully.
- Need for a social contract.
- Monitoring and evaluation (M&E) is also critical to enable all the players to keep on track.
- Policy consistency and predictability is also critical.
- Need to coordinate policies, for instance the Indigenisation and Economic Empowerment (IEE) policy allows the Ministry of Youth Development, Indigenisation and Empowerment to approve the shareholding structure in the Financial sector whereas the Banking law also allows the RBZ to approve the shareholding hence there is a conflict.
- Need to create non-debt capital flows such as foreign direct investment.
- Need to build foreign reserves.

The Southern African Development Community (SADC) Regional Infrastructure Investment Conference

The SADC Regional Infrastructure Investment Conference, which took place from 26 - 28 June in Maputo, brought together private sector, financiers and regional officials to accelerate regional infrastructure investment. The theme of the conference was 'Accelerating Investment in SADC Infrastructure through Sustainable and Innovative Financing.' The conference gave SADC an opportunity to share its Infrastructure Development Master Plan with priority infrastructure projects with various potential investors. Investment in the power sector through rehabilitation and construction of power stations is prioritised given the current power shortages in the region and the growing power demand by up to 5% every year. This is driven by the on-going discovery of minerals and other raw materials in the region, which require processing. The total investment cost for infrastructure projects to be implemented amounts to around USD64 billion.

Africa still to Transform Economic Growth into Economic Development

The Economic Commission for Africa and the African Union's Economic Report on Africa, 2013, revealed that a prolonged commodity-price boom and sustained growth trend for African countries since 2000 has not translated into economic diversification, commensurate jobs or broad-based economic and social development. This is because primary commodities has low employment intensity, thus the continent continues to suffer from high unemployment, particularly for youth and female populations, with too few opportunities to absorb new labour market entrants. African countries are not capitalising fully on their resource endowments and high international commodity prices. The report underscores the need for beneficiation of primary commodities before export, to develop appropriate local content policies, boost infrastructure, human skills and technological capabilities, and foster regional integration and intra-African trade.

The Zimbabwean economy did not benefit much from the commodity boom since it coincided with the economic crisis. The deterioration of infrastructure (rail, roads and electricity) due to very limited fiscal space also increased exporters cost of production making them unable to compete on the international market. This resulted in overreliance on primary commodities exports with very little growth in manufactured exports.

4. CONCLUSION

Although the economy has maintained price stability since 2009, the positive growth process is slowing down. More companies have closed down due to, among other factors, intense competition from cheaper imports. There is need to address the external sector challenges if the positive economic growth momentum is to be stopped from further slowing down. More confidence building is still required in the financial sector.

STATISTICAL TABLES

TABLE 1A: International Commodity Prices

	2012							2013					
	Jun	**July**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**April**	**May**	**Jun**
Gold (US$/oz.)	1,655.87	1,655.87	1,655.87	1,655.87	1,746.54	1,722.74	1,689.06	1,669.78	1,629.14	1,591.92	1,486.05	1,414.26	1,342.66
Platinum (U$/oz.)	1,507.05	1,507.05	1,507.05	1,507.05	1,640.13	1,576.64	1,588.25	1,631.74	1,674.75	1,583.05	1,487.94	1,476.80	1,430.98
Brent crude ($/bl.)	111.76	111.76	111.76	111.76	111.55	109.32	109.01	112.22	116.24	109.49	102.77	103.68	103.23
Maize (U$/t) 3YC	267.30	333.10	332.00	320.80	321.20	321.60	308.60	303.10	302.70	309.00	279.00	295.50	298.40
Wheat (U$/t) HRW	276.20	345.70	349.40	353.40	n/a	360.80	348.00	335.50	318.90	309.70	308.30	319.70	313.40

Sources: Bloomberg, IGC, BBC, Reuters, USDA, World Bank

TABLE 1B: Annual Inflation (%)

Jan-10	**Feb-10**	**Mar-10**	**Apr-10**	**May-10**	**Jun-10**	**Jul-10**	**Aug-10**	**Sep-10**	**Oct-10**	**Nov-10**	**Dec-10**
-4.75	-0.73	3.52	4.79	6.07	5.31	4.15	3.6	4.22	3.6	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**	**Jun-12**	**Jul-12**	**Aug-12**	**Sep-12**	**Oct-12**	**Nov-12**	**Dec-12**
4.30	4.30	4.00	4.03	4.02	3.97	3.94	3.63	3.24	3.38	2.99	2.91
Jan-13	**Feb-13**	**Mar-13**	**Apr-13**	**May-13**	**Jun-13**						
2.51	2.98	2.76	2.49	2.20	1.87						

Source: ZIMSTAT

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**	**Jun-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	0.1	0.5	0.2
Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**	**Sep-12**	**Oct-12**	**Nov-12**	**Dec-12**
0.46	0.49	0.43	0.19	0.07	0.20	0.22	-0.20	0.50	0.49	0.43	0.13
Jan-13	**Feb-13**	**Mar-13**	**Apr-13**	**May-13**	**Jun-13**						
0.07	0.95	0.21	-0.07	-0.21	-0.31						

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	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	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**	**Sep-12**	**Oct-12**	**Nov-12**	**Dec-12**
33.2	37.4	33.4	32.8	31.0	23.8	27.2	21.6	23.1	24.9	23.8	25.4
Jan-13	**Feb-13**	**Mar-13**	**Apr-13**	**May-13**							
21.1	12.9	10.5	14.9	12.2							

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	500,657,173	674,429,368	799,467,460
	Sep-12	**Oct-12**	**Nov-12**	**Dec-12**	**Jan-13**	**Feb-13**	**Mar-13**	**Apr-13**
Imports (c.i.f) US$	633,025,036	890,785,181	713,429,472	665,502,187	619,516,948	509,898,225	532,789,168.	963,677,367
	May-13	**Jun-13**						
Imports (c.i.f) US$	579,176,764							

Sources, ZIMSTATS

Table 1f: Export Balances

	May-11	Jun-11	Jul-11	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11
Exports (US$)	288,743,562	373,029,213	388,786,028	221,313,963	226,974,741	143,866,926	245,169,257	376,849,339
	Jan-12	**Feb-12**	**Mar-12**	**Apr-12**	**May-12**	**Jun-12**	**Jul-12**	**Aug-12**
Exports (US$)	258,124,310	255,206,355	310,041,948	227,253,008	278,161,855	232,719,132	338,045,622	449,726,798
	Sep-12	**Oct-12**	**Nov-12**	**Dec-12**	**Jan-13**	**Feb-13**	**Mar-13**	**Apr-13**
Exports (US$)	324,343,098	479,941,695	415,207,388	314,872,655	280,512,519	279,057,033	253,999,596	209,914,487
	May-13							
Exports (US$)	278,413,609							

Sources: ZIMSTATS

Table 1g: Foreign Exchange Rate

	Apr-12	May-12	Jun-12	Jul-12	Aug-12	Sep-12	Oct-12	Nov-12	Dec-12	Jan-13	Feb-13	Mar-13	Apr-13	May-13
US$/ Rand ***(end period)***	7.74	8.53	8.20	8.18	8.41	8.31	8.68	8.82	8.50	8.95	8.95	9.19	9.01	10.15

Sources: Reserve bank of South Africa,

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

	2012				2013				
	Sep	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**Apr**	**May**
Demand Deposits	1,871,724.30	2,017,382.00	1,909,600.20	2,089,394.20	2,031,531.20	1,978,341.39	1,965,022.70	2,086,622.60	2,045,215.90
Saving and Short-Term Deposits	1,014,873.70	1,313,605.10	1,244,665.80	1,235,029.10	1,192,706.60	1,269,131.48	1,307,075.90	1,353,710.50	1,297,619.00
Long-Term Deposits	331,299.50	482,976.80	670,390.80	562,248.80	584,157.70	566,144.07	526,425.50	526,409.40	675,306.60

Sources: Reserve Bank of Zimbabwe

Table 1I: Gold Deliveries

	2012							2013					
	Jun	**July**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**	**Jan**	**Feb**	**Mar**	**April**	**May**	**Jun**
Gold Production (kg)*	928	1338	1200	1114	1199	1110	1052	967	962	990	1082	1131	1033

*Sources: Fidelity Printers and Refineries, * monthly averages*

Table 1J: Diamond Production

	2010				2011				2012			
	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)
	4,881,663.55	153.41	3,553,560.47	186.34	2,554,069.48	153.3	5,948,578.59	322.92	6,069,683.23	321.67	5,990,479.47	322.37

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

Table 1K: Government Budget

	2012								2013				
	May	June	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Revenues (U$m)	256.4	321.7	257.5	252.9	326.4	267.5	269.0	419.5	245.2	258.8	299.9	251.9	268.8
Spending (U$m)	239.1	301.4	287.8	281.7	314.0	313.4	327.8	519.8	225.4	324.5	312.8	246.2	340.4
Balance (U$m)	17.3	20.3	-30.3	25.53	12.5	-32.6	-34.6	-11.6	9.02	-70.2	-11.0	19.6	7.9

Sources: Ministry of Finance, Note: monthly averages

Table 2A: Annual Economic Growth

	2008	2009	2010	2011	2012
GDP Growth (%)	-17.7	6.0	9.0	10.6	4.4*
GDP (US$ Million)	4,416	5,899	8289.6	10068	11597*

Source: ZIMSTAT, estimates*

Table 2B: International Commodity Prices

	2008	2009	2010	2011	2012
Gold (US$/oz.)	871.64	982.50	1 218.59	1 358.42	176,671.00
Platinum (US$/oz.)	1 577.00	1 212.25	1 608.23	1 721.92	1530.71
Brent crude ($/bl.)	-	-	-	-	111.31
Maize (U$/t) 3YC	-	-	-	291.70	298.40
Wheat (U$/t) HRW	-	-	-	316.30	313.20

Source: International Grain Council, BBC, Reuters

Table 2C: Trade & Balance of Payments

	2008	2009	2010	2011	2012
Exports - Total Goods (US$ Millions)	1 660.43	1 613.27	3 245.45	3 557.02	3883.64
Imports - Total Goods (US$ Millions)	2 629.55	3 213.07	5 864.93	8 594.28	7483.99
Current Account Balance (US$ Millions)	-775.34	-1 140.30	-1 917.80	-3127.20	-2563.40*
Overall Balance (US$ Millions)	-725.23	-1867.00	-412.05	-593.30	-477.50*

*Sources: ZIMSTATS import figures for 2008 and 2009 are f.o.b, * estimates*

Table 2D: Foreign Exchange

	2008	2009	2010	2011	2012
Exchange Rate ZAR per USD	8.26	8.28	7.31	7.28	8.48
Import Cover Ratio (months) *(at 100% ; Goods and Services)*	-	1.2	1.0	0.635	0.7*
External Debt (US$ Million)	4,690	6,289	6,695	7,160	-
External Debt (% of GDP)	147.70%	102.50%	90.10%	80.8%	-

*Source: Reserve Bank of Zimbabwe, * estimates*

Table 2E: Banks Deposits, Assets and Credit

	2009	2010	**2011**	**2012**
Bank Assets (Annual Average) (US$ Million)	-	2,271.80	3,393.70	5528.47
Deposits (Annual Average) (US$ Million)	-	-	2.793.73	3593.81
Bank Credit to Private Sector (Annual Average) (US$ Million)	-	1.235	2.344	3.100
Loan/Deposit Ratio (Annual Average) %	-	-	83%	87.3%

Source: Reserve Bank of Zimbabwe

Table 2F: Zimbabwe Stock Exchange Indices

	2009	**2010**	**2011**	**2012**
ZSE Industrial Index (Annual Average)	151.99	151.3	157.54	140.26
ZSE Mining Index (Annual Average)	185.5	200.4	173.7	86.73

Source: Zimbabwe Stock Exchange

Table 2g: Business / Production Indicators

	2008	**2009**	**2010**	**2011**	**2012**
Gold Production (Kg)	3 579.00	4 966.00	-	12993	14735.12
Platinum Production(Kg)	5 495.10	6 848.90	-	10827	10524.24
Tobacco Sales (Kg Millions)	69.79	63.6	85.04	133	144.5*
Maize Production (Kg Millions)	435.16	1 242.56	1 322.57	1 451.63	968*
Cotton Production (Kg Millions)	226.44	246.76	172.13	250	350*

*Source: Chamber of Mines, TIMB and Agritex, MoF, * estimates*

Table 2h: Government Budget

	2009	**2010**	**2011**	**2012**
Revenues (US$ Million)	897.49	2 339.06	2 921.02	3495.78
Spending (US$ Million)	850.28	2 106.95	2 895.85	3607.67
Balance (US$ Million)	47.21	232.11	25.17	(111.89)

Sources: Ministry of Finance