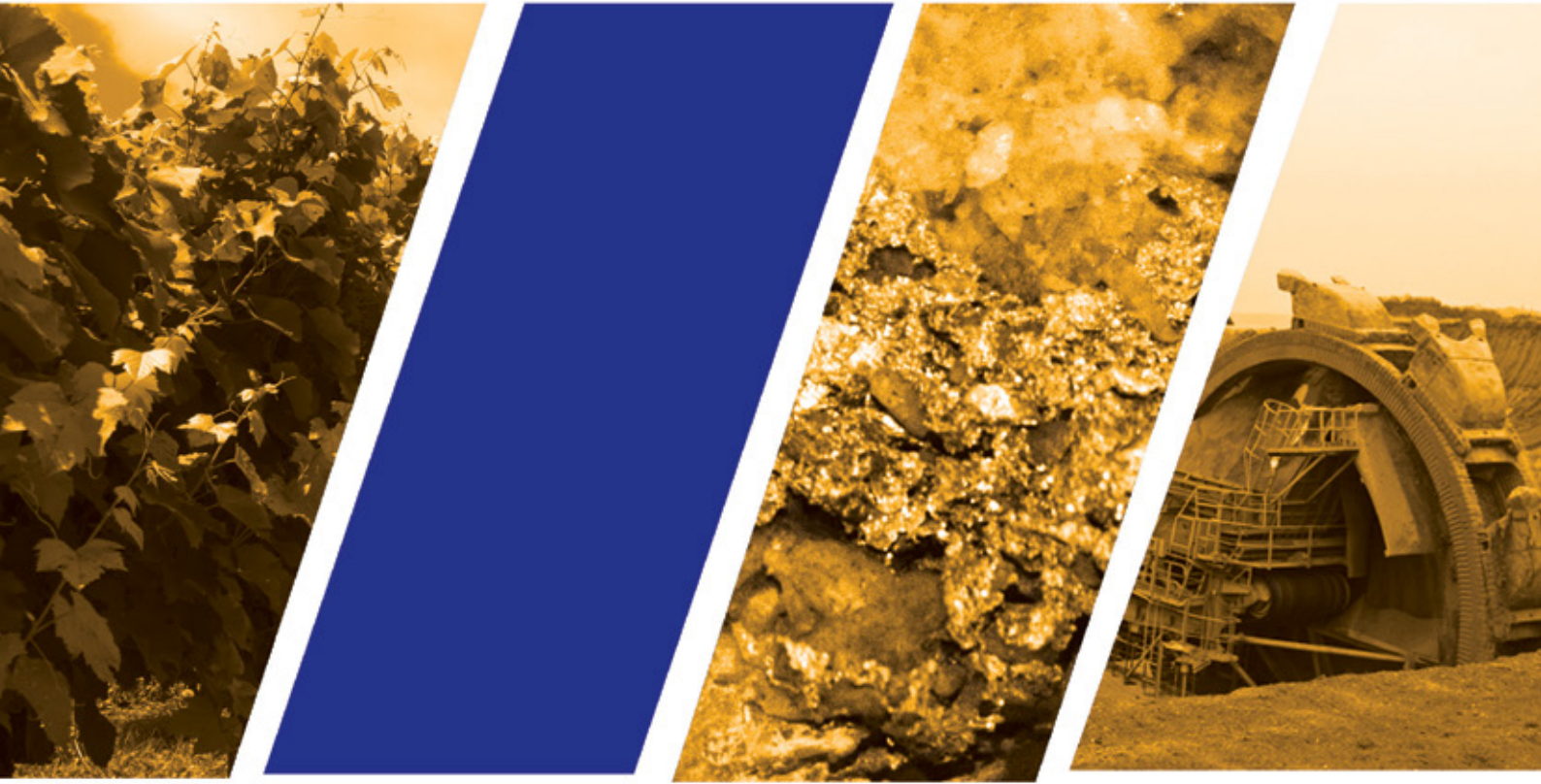




ZIMBABWE ECONOMIC
POLICY ANALYSIS AND
RESEARCH UNIT



T H E

ZEPARU

Economic

Barometer

VOLUME 19



Highlights of this Issue

Slower growth in emerging countries (especially in China) will continue to suppress commodity prices, adversely impacting on Zimbabwe's export revenue.

Zimbabwe's exports lack diversification since the basket is heavily composed of primary agriculture and mining products. Expediting value addition and beneficiation is critical for enhancing diversification of exports and reducing shocks associated with volatile international commodities prices.

The ZEPARU Composite Leading Indicator index shows a decline in economic activities between October and November 2015 following a recovery in the 3rd quarter 2015.

Average crude oil price stood at US\$42.21 a barrel in the 4th quarter of 2015, the lowest price since March 2005 owing to excess supplies from OPEC members and subdued aggregate demand, benefiting oil importing countries like Zimbabwe.

Real lending rates declined to 7 – 19% from 7 - 37% owing to the coming into effect of interest rate guidelines capping nominal lending rates at 18% in October 2015.

The mining index reached an all-time low of 22.33 in November 2015 since trading resumed in the multicurrency period.

Special feature: Special Economic Zones: Lessons for Zimbabwe.

Summary

The new edition of ZEPARU's Economic Barometer sets out the key economic data for Zimbabwe, predominantly covering the period January to December 2015. It is an easy to access compendium of information for anyone interested in the Zimbabwean economy. The key economic data in this edition of the Economic Barometer includes:

Global and regional economic developments:

- Commodity prices continue to fall adversely affecting Zimbabwe's mining operations, export receipts, mineral tax revenues and employment.
- Crude oil prices registered a 43.41% decline to an average of US\$42.21 a barrel in the 4th quarter of 2015 compared to same period in 2014. In 2016 the oversupply in the markets is expected to continue owing to the resumption of Iran's oil exports after the lifting of sanctions.
- Declining maize and wheat prices coupled with the strengthening US dollar should enhance the country's capacity to import these basic commodities. This will be particularly important given the prospects of one of the severest droughts since 1992.
- ZEPARU is forecasting inflation to marginally rise to -2.1%, by March 2016.
- Interest rates in November are lower in 2015 relative to 2014 following the coming into effect of interest rate guidelines capping nominal lending rates at 18% in October.
- The increase in long-term deposits by 3.31 percentage points to 21.6% for the first 11 months in 2015 compared to the same period in 2014 enhances the capacity of banks to offer medium to long-term finance to the productive sectors of the economy.
- On the stock exchange the industrial index lost 47.72 points (29.35%) to close at 114.85 whereas the mining index lost 48.89 points (67.33%) to close at 23.72, thus falling below their five year averages for the period 2010 to 2014 for the greater part of 2015. The mining index reached an all-time low of 22.33 in November 2015.

Major Zimbabwe economic trends:

- The ZEPARU Composite Leading Indicator (CLI) index deteriorated between October and November 2015 indicating worsening economic conditions for Zimbabwe.
- Government revenue for the eleven months to November 2015 performed below target, (down 4.54% compared with 2014). In contrast, Government expenditure and net lending increased by 0.37%, mainly driven by employment costs and interest payments on domestic debt.
- The economy experienced deflation in 2015 with year on year inflation reaching its lowest level in 5 years in October 2015, owing to depreciating South African rand against the US dollar and weak consumer demand.
- The share of government borrowing continues to increase at the expense of private sector, risking crowding out of private sector investment.

Important economic sectors:

- Zimbabwe still has the largest national maize deficit in the region, estimated at 645,000 metric tonnes. This is worsened by reports which estimate the maize cropped area to be less than a third of the area cropped during the same time in 2014.
- A negative business confidence index (-37.2) coupled with a reduction in overall capacity utilisation to 34.3% in 2015 compared to 36.5% in 2014 shows a worsening situation for the manufacturing sector, at



a time where the country is targeting value addition and beneficiation under the economic blue print ZimASSET.

- Total gold deliveries in 2015 reached 18.305 tonnes, falling short of the target of 18.7 tonnes by about 2.1%. Small scale miners' contribution doubled in just two years from 19.2% in 2013 to 40.1% in 2015 despite the general slump in international gold prices.
- The proposed capacitation of the Zimbabwe Geological Survey with the necessary equipment and technology is a positive development given that extensive exploration has been done for about 60-65% of the country.
- Zimbabwe's exports and imports continue to be characterised by lack of diversification. Fuel was the largest import product for both 2014 and 2015, while the top five export products for 2014 and 2015 remained the same. This demonstrates the country's vulnerability to shocks, especially with respect to commodity prices, as the exports remain largely unprocessed agriculture (tobacco) and mining products.
- However, despite the potential of SEZs in Zimbabwe, some mixed results of SEZ development in different countries show that it is not a panacea to all economic challenges. The implementation of SEZs should be an integral part of national development strategies to enhance their nationwide effect. A clear link to the economy's development strategy increases the likelihood of the SEZs to have broad nationwide impact.
- ZEPRU suggests 10 key lessons from the literature and international experience which could help ensure success for SEZ's in Zimbabwe.

Special feature: Special Economic Zones: Lessons for Zimbabwe:

- To enhance the country's industrialisation and the diversification, Zimbabwe is now focusing on the establishment of SEZs, following China's resounding success in operating SEZs.
- The Cabinet has approved the SEZ Bill and areas earmarked for SEZs have been identified.

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1 Global and Regional Developments

1.1 World Economic Outlook

Summary: Only modest growth is expected in high income countries. This is largely explained by the gradual tightening of financing conditions, a stabilization of commodity prices, and a gradual rebalancing in China. However, there remains a lot of uncertainty in the world economy, not least in the major emerging economies (Brazil, Russia, China and South Africa) which are all expected to see slower growth. This could destabilise the modest forecast recovery in global growth.

Overall global trends

Global growth is expected to recover modestly, rising from 2.4% in 2015 to an anticipated 2.9% in 2016. Growth in 2015 was below expectation because it was held back by weak capital flows to emerging and developing countries, low commodity prices and subdued global trade. The forecast modest recovery for 2016 is expected to be the result of:

- Growth in large high-income countries, such as the United States (driven by domestic demand).
- A gradual tightening of financing conditions.
- A stabilization of commodity prices.
- A gradual rebalancing within China: with policy assuming a shift from investment to consumption. The latter's share of GDP is gradually recovering from the post crisis fall.

However, major risks remain in the world economy, not least weak growth in emerging economies (see below) combined with new financial stresses.¹ It is conceivable therefore that 2016 could see global growth fall sharply in 2016.

High income economies

Growth projections in high income countries show a mixed picture. The US growth referred to above and the improved outlook in the Eurozone (which has witnessed a fall in unemployment) help explain why overall global growth in 2016 is expected to improve on 2015. But elsewhere there is cause for concern. For instance the recovery remains fragile

in Japan despite a substantial policy stimulus. Moreover, high income countries are bracing themselves for the impact falling external demand from emerging economies will have on their growth prospects

Emerging economies

All of the major emerging economies - Brazil, Russia, China, and South Africa - are experiencing slowing growth. As the World Bank has pointed out, this will have a spill over effect on the rest of the world economy. The continued slowdown in China is expected to affect global growth most. But other countries' slow growth matters too. For example, weak growth in Russia will set back activity in other countries in the region.

Developing countries

Growth in developing countries slowed to 4.3% in 2015. This was the result of both domestic and external challenges. Domestic challenges included slowing productivity growth, policy uncertainty, and eroding policy buffers that have led to contractionary monetary and fiscal policies in some countries. A contractionary fiscal policy has the effect of reducing aggregate demand. On the other hand a contractionary monetary policy is one that has the effect of reducing money supply and economic activity through interest rate increases. External factors included persistently low commodity prices, subdued global trade, spill overs from weaknesses in major emerging markets, decelerating capital flows and rising borrowing costs.

Sub-Saharan Africa and other regions

In Sub-Saharan Africa, growth slowed to an estimated 3.4% in 2015, the lowest rate since 2009. This is mainly explained by the external factors such as low commodity prices, a slowdown in major trade, tightening borrowing conditions and domestic factors related to political instability and infrastructure constraints. However, the World Bank forecasts a rebound between 2016-18, as commodity prices stabilise and supply constraints ease, providing some support for government spending and private investment. A modest recovery is projected in Nigeria and South Africa, the region's two largest economies.

¹ It is anticipated that the financial stress would emanate from a combination of the sudden readjustment about future movement of US interest rates, domestic fragilities and policy uncertainties in some developing countries.

Looking at growth rates in other regions reveals a varied picture:

East Asia and Pacific: growth is estimated to have slowed from

**6.8% in 2014 to
6.4% in 2015**

and is expected to decelerate to an average of

6.3% in 2016-18.

Middle East and North Africa: growth is estimated at

2.5% in 2015

showing no signs of change from 2014 levels. Growth among oil exporters either slowed or was negative in 2015.

Europe and Central Asia: growth is estimated to have dipped to

2.1% in 2015

the slowest rate since 2009.

South Asia: growth is projected to accelerate to

**7.5% in 2016-18
from 7% in 2015**

Latin America and the Caribbean: growth is estimated to have contracted by

**0.9% in 2015
from 1.3% in 2014.**

1.2 International Commodity Prices

Summary: Commodity prices continue to fall significantly, mainly as a result of over-supply and weak global demand. This is adversely affecting Zimbabwe's mining operations, export receipts, mineral tax revenues and employment. However, on a positive note, declining maize and wheat prices coupled with the strengthening US dollar should enhance the country's capacity to respond to the looming drought.

1.2.1. Precious Metals and Crude Oil

Gold, platinum and crude oil prices continued to decline in the 4th quarter of 2015. The price movements in these commodities are summarised below.

Gold and platinum

Gold prices averaged US\$1104.65/ounce in the 4th quarter of 2015, down by 1.69% from the average price in the 3rd quarter and 7.91% lower than the price in the corresponding quarter in 2014 (Figure 1a). The decline in gold prices follows the expected and then implementation interest rate hike in the US last December. This made holding non-interest-earning assets, like gold, less attractive to investors. The strengthening of the US dollar also weighed down on the gold price. Gold is quoted on the international market in US dollars, thus when the value of the US dollar appreciates, gold becomes expensive to holders of other currencies and less of it is demanded, hence prices fall.

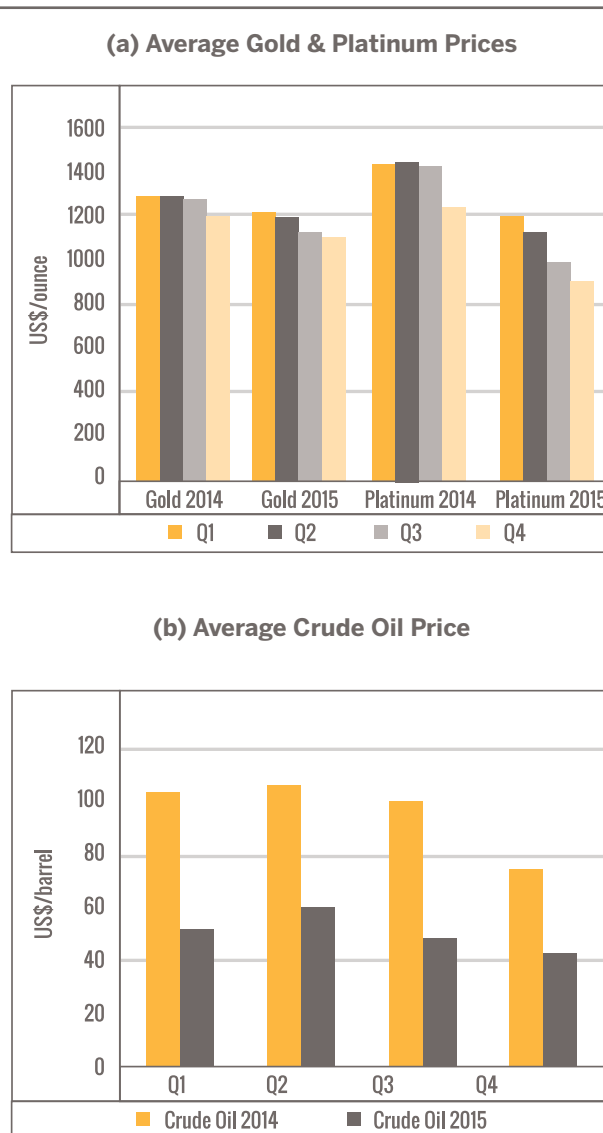
Platinum's average price in the fourth quarter of 2015 was US\$907.64/ounce, down by 7.94% from the previous quarter, and 26.08% below the price in the corresponding period in 2014 (Figure 1a). Over-supply (mainly as a result of South Africa's recovery after the 2014 strike) combined with sluggish growth in demand held prices down. Platinum supply for 2015 is estimated to increase by 6.33% while demand will barely increase owing to a decline in jewellery demand, mainly from China.²

Crude oil

The average crude oil price stood at US\$42.21/barrel in the 4th quarter of 2015, declining by 13.44% from the previous quarter's price, and remained 43.41% lower than the price recorded in the corresponding quarter in 2014 (Figure 1b). The 4th quarter of 2015's average price was the lowest price since March 2005. Excess supply, notably from sustained production by Organisation of the Petroleum Exporting Countries (OPEC) members (above the 30 million barrels per day ceiling) and subdued aggregate demand, depressed oil prices.

Looking ahead to 2016, crude oil prices could remain subdued if Iran resumes its oil exports after the lifting of sanctions, thus extending the oversupply in the market.

Figure 1: Monthly Average Prices for Gold and Platinum, January - September 2014 and 2015



Source: World Bank

Implications for Zimbabwe: Gold and platinum account for just under half the value of mineral production in Zimbabwe, and around two thirds of total mineral tax revenue. Falling prices of these commodities will therefore have serious impacts on Zimbabwe's exports receipts, tax revenues and employment. This threat emphasises the need to move ahead with implementation of beneficiation – i.e. value addition processing – to reduce vulnerability to international price movements.

² World Platinum Investment Council, 2015.

1.2.2. Wheat and Maize

Wheat and maize represented less than 4% of Zimbabwean imports in 2014. Nevertheless, given the current pressure on food security it is important to understand what is happening in these world markets.

The maize price continued to be subdued in the 4th quarter of 2015, averaging US\$167.16 per tonne. This was 1.24% lower than the price in the 3rd quarter and 3.67% below the price in the corresponding period in 2014. These falls were the result of ample global supplies, weak global demand and high maize stocks carried over from the previous season. Lower prices in Ukraine following the completion of the 2015 harvest also depressed maize price.

Movements in the price of wheat were mixed. The soft red winter (SRW) wheat price increased from the 3rd quarter price by 2.12% to US\$200.58 per tonne in the 4th quarter of 2015. However, the price was still 16.19% lower than the corresponding period in 2014. Hard red winter (HRW) wheat price declined relative to the 3rd quarter 2015 and

4th quarter 2015 prices by 4.84% and 32.35%, respectively, to US\$174.45 per tonne.

Generally, wheat prices have been subdued amid improved weather conditions in the US and higher than projected output in China, the EU and Kazakhstan. The strong US dollar has also made US exports less competitive, forcing price cuts on US wheat in the international markets. The removal of an export ban on wheat by the Argentine government also depressed prices.

Implications for Zimbabwe: Zimbabwe is expected to receive below normal rainfalls in the 2015/16 season as a result of the El Nino effect. This will result in a shortage of maize and wheat. However, the falling international price of maize and wheat, coupled with the strengthening US dollar, should enhance Zimbabwe's capacity to respond to these looming shortages.

Table 1: Wheat and Maize Monthly Average Prices for Q1-Q4 2014 and 2015 (US\$)

	MAIZE		WHEAT			
	Maize 2014	Maize 2015	Wheat SRW 2014	Wheat SRW 2015	Wheat HRW 2014	Wheat HRW 2015
Q1	209,91	174,21	264,04	223,37	297,12	238,81
Q2	214,02	168,36	263,65	205,15	322,07	216,12
Q3	174,07	169,27	213,83	196,41	262,50	183,32
Q4	173,53	167,16	239,32	200,58	257,89	174,45

Source: World Bank



2 Major Zimbabwe Economic Trends

2.1. ZEPARU Composite Leading Indicators

Summary: ZEPARU's CLI index deteriorated between October and November 2015 after recovering in the 3rd quarter. The decline between October and November points to worsening economic conditions ahead for Zimbabwe.

Understanding the Composite Leading Indicators index

A composite leading indicators (CLI) index has been constructed by ZEPARU to track economic developments and signal turning points in economic activity. This can help policy makers take pre-emptive measures against impending economic developments. The variables that make up the CLI index are:

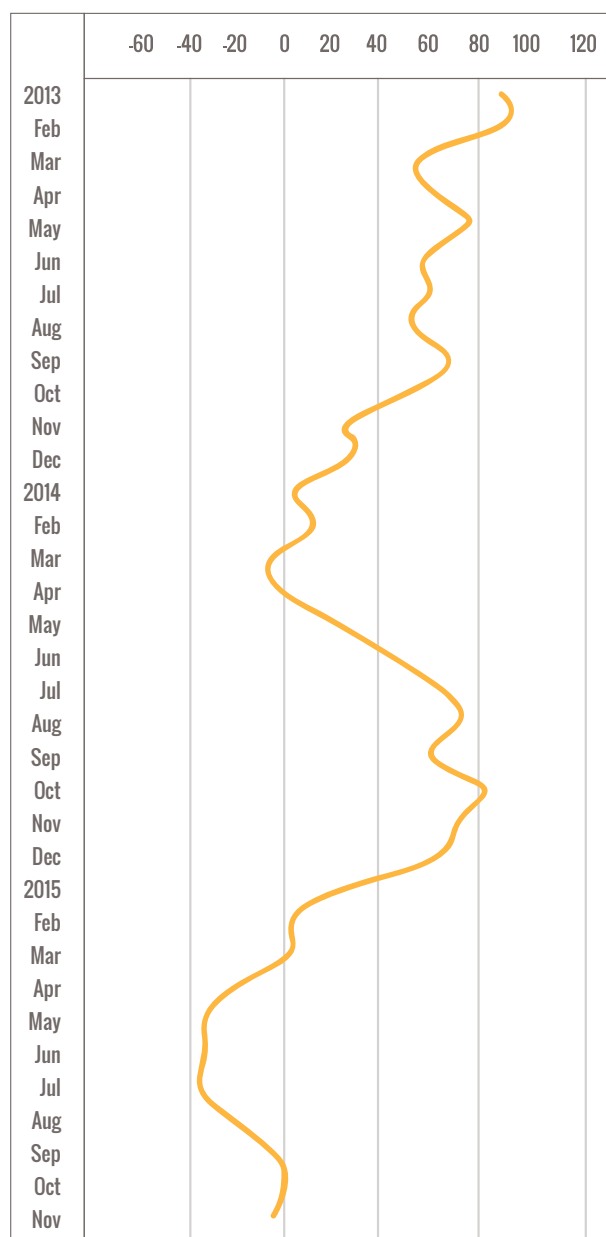
- The Zimbabwe Stock Exchange (ZSE) industrial index;
- Broad money supply (M3)³;
- Imports of intermediate goods;
- Precious metal (gold and platinum) prices;
- Pay-as-you-earn (PAYE) receipts;
- Volume of manufacturing index (VMI);
- Interest rates and inflation levels.⁴

The interpretation of the CLI index focuses on its direction of movement and turning points; its absolute level does not have any important meaning. Downward movements in the CLI index indicate deteriorating economic conditions, while upward movements indicate increasing economic activity. A peak indicates that economic conditions are changing from being positive to negative and the opposite is true for a trough.

Latest CLI findings

Overall the CLI index deteriorated between October and November 2015 after recovering in the 3rd quarter (Figure 2). The recovery in the 3rd quarter means that in the 4th quarter economic activity has been increasing, owing to the festive season. However, the decline between October and November portends deteriorating economic conditions ahead.

Figure 2: ZEPARU CLI index



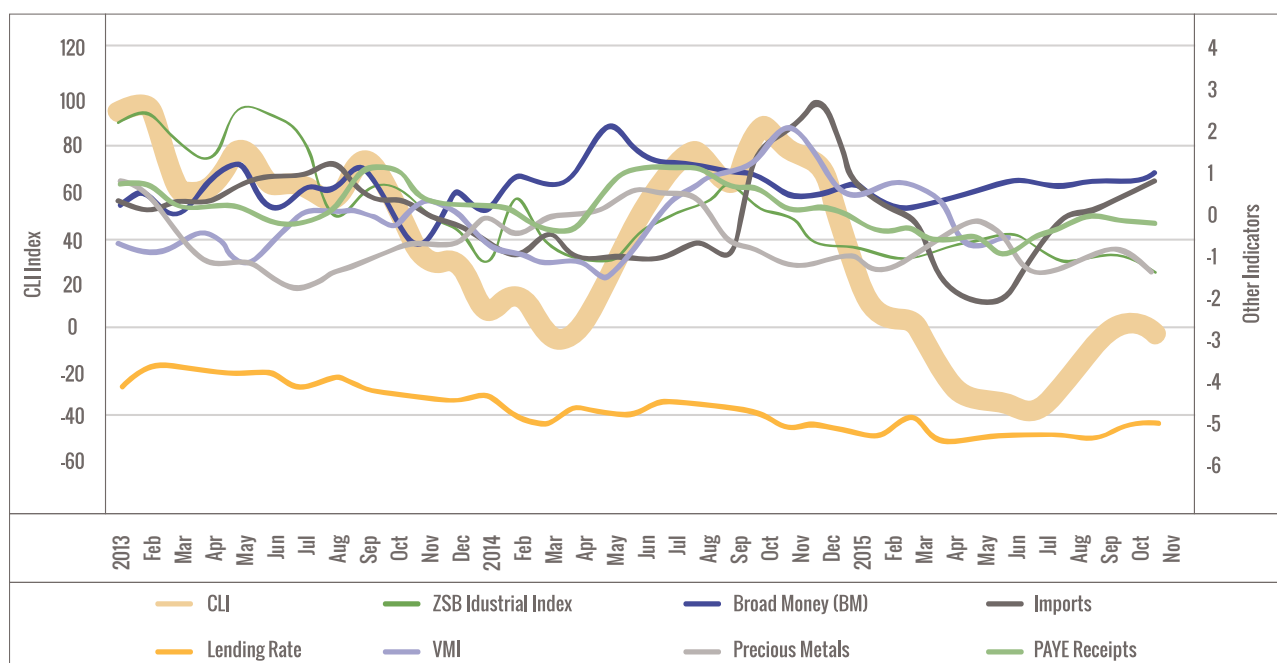
³ Broad money supply (M3) is defined as total banking sector deposits, net of inter-bank deposits.

⁴ These variables have been selected on the basis of their significance in determining economic activity as well as frequency and timely availability of data. The present limitation to the CLI index is the unavailability of quarterly gross domestic product (GDP) data. Once such data becomes available, the CLI index can be refined to determine number of lead periods.

An analysis of the components of the CLI index (Figure 3) over October and November 2015 shows that the decline in the CLI index was driven by the following factors:

- Weakening contribution of the mining sector: precious metal prices are subdued, thus adversely affecting mining operations in terms of profitability, investments, export receipts and employment.
- Low prospects of increased company earnings: the ZSE industrial index is falling reflecting investor concerns about the future prosperity of the economy.
- Tight liquidity conditions: money supply growth is weak and lending rates higher, which is limiting investment and consumption in the economy.
- Decline in formal employment: PAYE receipts declined following the Supreme Court ruling in July 2015 which resulted in the retrenchment of employees on three months' notice. With loss of employment, domestic aggregate demand and production will decline.

Figure 3: ZEPARU CLI and its components



The overall conclusion from the latest CLI is that Zimbabwe should be braced for more difficult economic conditions ahead. While the government's room for manoeuvre is limited by the fiscal position and the wider global economic context, the latest CLI nonetheless reiterates the need to implement important government policies. For example, in the face of declining commodity prices, it is imperative to expedite the implementation of value addition and beneficiation strategies enunciated in the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (ZimASSET).

2.2. Fiscal Policy Developments

Summary: Total government expenditure exceeded total government revenue collection, resulting in a budgetary deficit of US\$361.73 million which was mainly financed by domestic loans and treasury bills. Government revenue collection was mainly weighed down by the decline in incomes and profits. In particular, PAYE and royalties receipts were reduced on the back of increased employee retrenchments and declining mineral export receipts respectively.

Overall budget deficit

Total government expenditure exceeded total government revenue collections, resulting in budgetary deficit of US\$361.73 million which was mainly financed by domestic loans and treasury bills.

Revenue Outturn

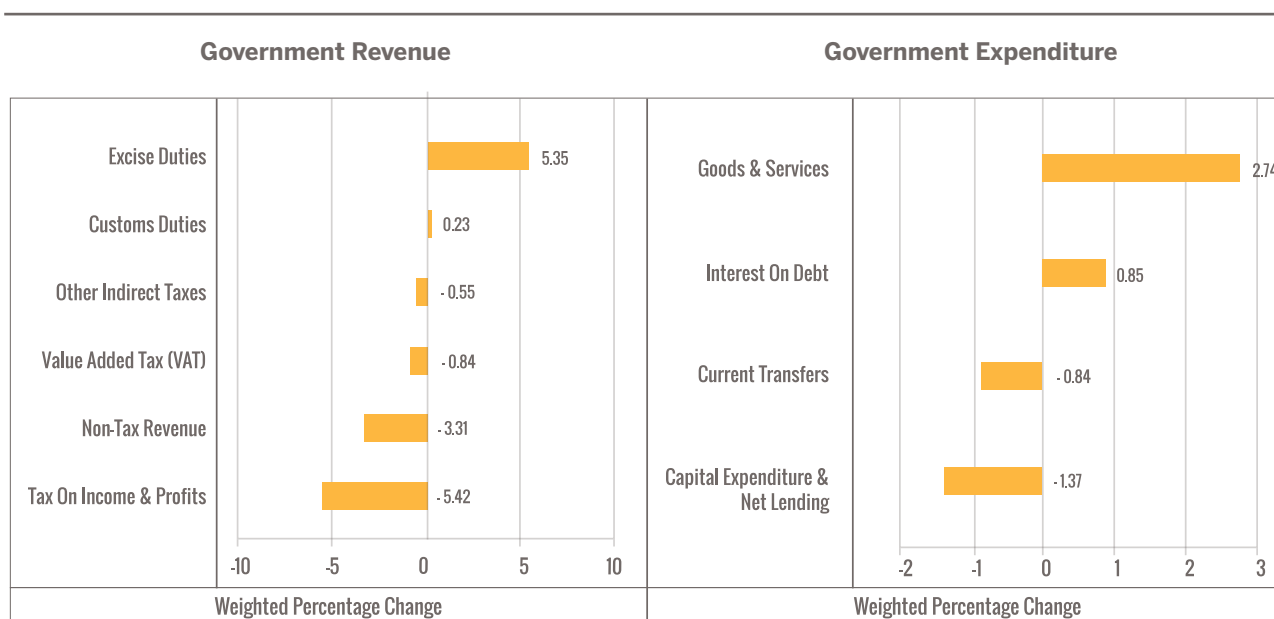
Actual total Government revenue (net) for the eleven months to November 2015 stood at US\$3.2 billion against a target of US\$3.55 billion. Thus the total government revenue collected declined by 4.54% from US\$3.36 billion in the comparable period in 2014.

The decline in total government revenue in 2015 was mainly driven by the decline in taxes on incomes and profits and non-tax revenue which accounted for -5.42% and -3.31% of the weighted change in total government revenue respectively. Tax on individual incomes mainly declined due to increased retrenchments and employee rationalization undertaken by most companies in the face of declining economic prospects. Royalties declined due to the decline in mineral export receipts on the back of declining commodity prices (see section 1.2).

On the other hand there was an increase in domestic value added tax (VAT) collections. The overall performance of VAT performance was, however, reduced by increased VAT refunds and a decline in VAT collections on imported goods and services.

An increase in domestic value added tax collections

Figure 4: Drivers of Change in Government Revenue and Expenditure, (January – November; 2014 vs. 2015)



Source: Ministry of Finance and Economic Development

Note: Weighted percentage change e.g. for Government revenue means change in revenue head expressed as a percentage of the comparable period total government revenue ($\frac{\Delta Th}{TGt-1} \times 100$).

Expenditure Outturn

Actual government expenditure and net lending for the eleven months to November 2015 stood at US\$3.57 billion, a 0.37% increase from US\$3.55 billion recorded in the comparable period in 2014.

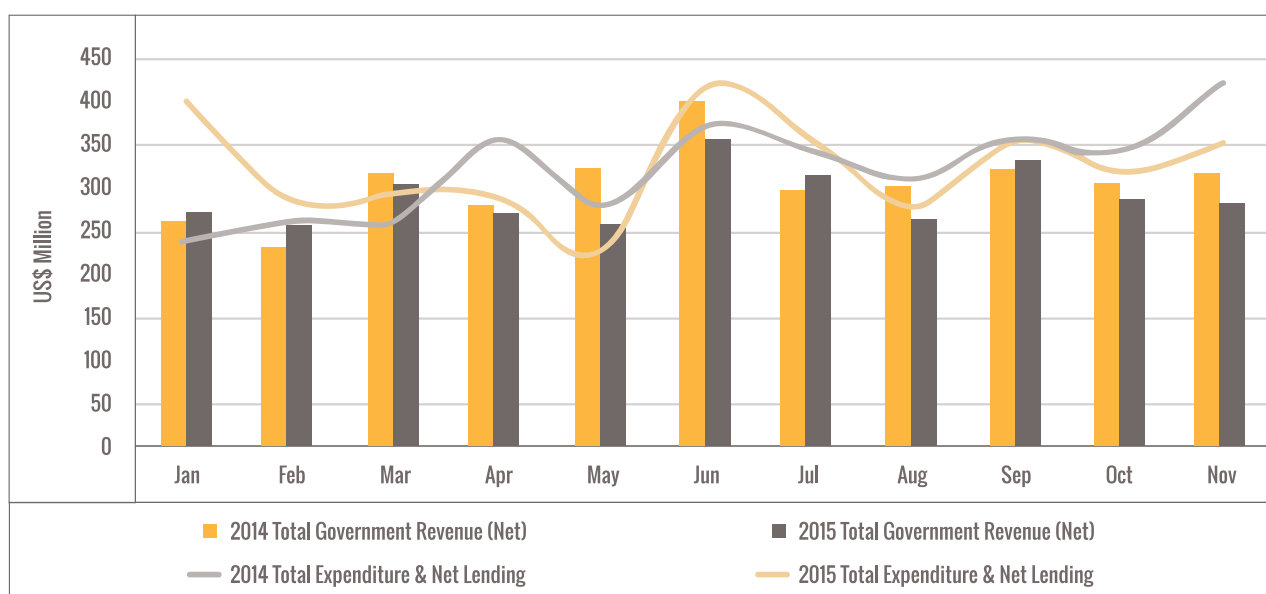
Increased expenditure was mainly driven by goods and services and interest payments on domestic debts, which accounted for 2.74% and 1.09% respectively of the change. On the other hand there were noticeable declines in capital expenditure and current expenditure (see figure 4).

Fiscal trends: 2015 compared with 2014

For the greater part of 2015 monthly Government revenue collections were lower than their average performance in 2014. This reflects the poor performance of the economy

in 2015. On the other hand the performance of total government expenditure in 2015 averaged US\$324 million per month above its average performance in 2014 of US\$322 million per month, despite efforts by government to contain expenditure in line with targets of the International Monetary Fund (IMF) Staff Monitored Program (which seeks to strengthen fiscal sustainability by ensuring that expenditure is kept in line with fiscal revenues thus bringing the primary fiscal deficit close to balance).

Figure 5: Trend in Government Revenue and Expenditure, January - November (2014 and 2015)



Source: Ministry of Finance and Economic Development

2.3. Inflation Developments

Summary: The economy experienced deflation in 2015 with year on year inflation remaining in negative territory throughout the year. It reached its lowest level in 5 years in October 2015. Trends in inflation were mainly influenced by the depreciating South African rand against a buoyant US dollar and weak consumer demand. The central forecast of ZEPARU's inflation forecasting model is of a very modest rise in inflation from -2.47% in December to -2.10% in March 2016.

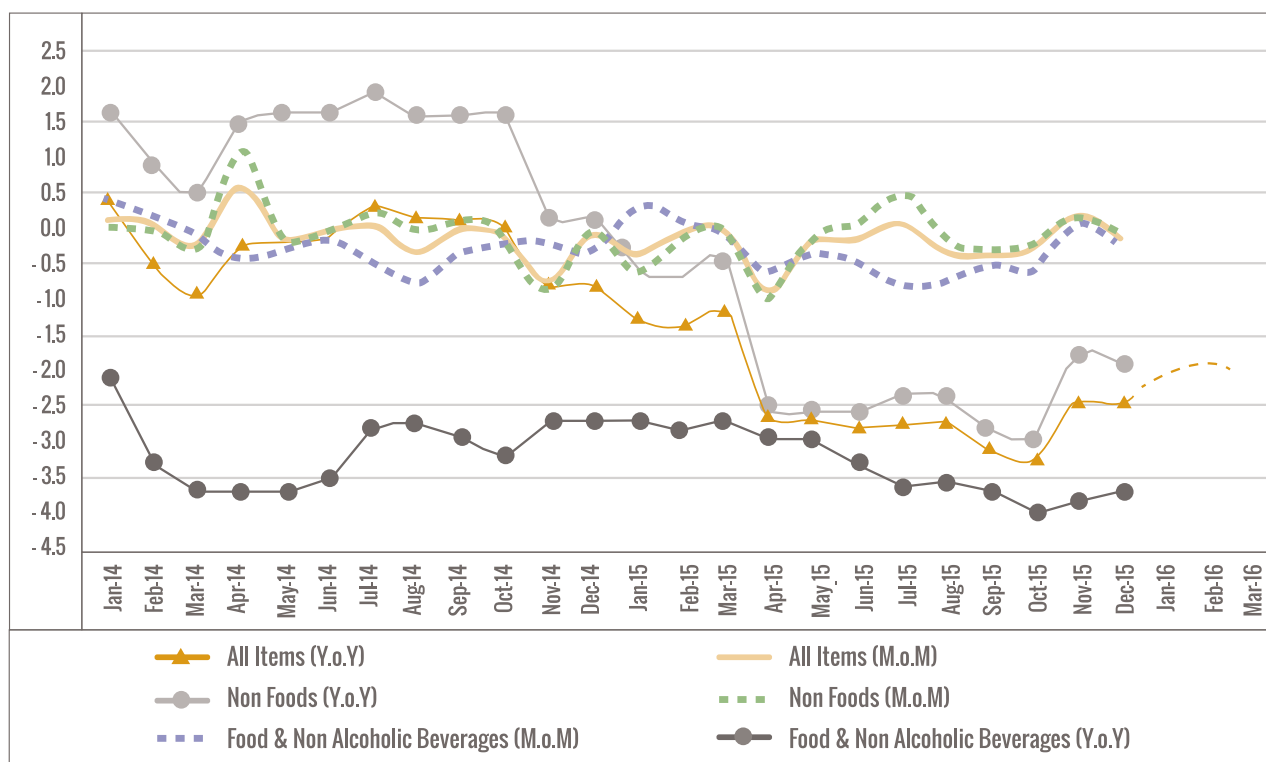
Annual Inflation

The year on year inflation rate for December 2015 stood at -2.47%, down 0.01 percentage points from November (Figure 6). Non-food inflation stood at -1.80% in November,

but fell 0.09 percentage points to -1.89% in December. Food and non-alcoholic beverages stood at -3.85% in November, but gained 0.14 percentage points to be -3.71% in December.

Overall, 2015 saw the economy experiencing continued deflation with year on year inflation reaching its lowest level in 5 years in October 2015 at -3.29% (Figure 6). Trends in inflation were mainly influenced by the depreciating South African rand against the US dollar.

Figure 6: Trend in Annual and Monthly Inflation, January 2014 – December 2015



Source: ZIMSTAT

Monthly Inflation

On a month on month basis, the inflation rate for December 2015 stood at -0.11% shedding 0.27 percentage points from the November rate of 0.16%. Non-food inflation stood at 0.22%, shedding 0.28 percentage points from -0.06% in November 2015, whilst food and non-alcoholic beverages inflation also declined by 0.25 percentage points from 0.04% in November 2015 to -0.21% in December 2015. Thus for the greater part of 2015 month on month inflation remained negative as the economy edges further into deflation (Figure 6).

Box 1: ZEPARU's Inflation Outlook

ZEPARU has a model which allows us to forecast future inflation levels. The model has been developed based on a widely accepted approach to forecasting price levels. As with any forecasting, however, a forecast is not a hard prediction. There are many factors which a model cannot take into account. That is why as well as presenting a central forecast, we also present the range of potential outcomes which the model predicts. (See notes under Table 2 for further details).

The central forecast of ZEPARU's model is that inflation is forecast to rise from its level in December 2015, which was -2.47%, to -2.10% in March 2016. The reason that the model is showing an increase in inflation is that based on immediate past trends inflation is slowly rising despite transitory shocks.

Table 2: ZEPARU Inflation Forecast, January – March 2016

	JANUARY 2016	FEBRUARY 2016	MARCH 2016
Upper Limit	-1.02	-0.88	-0.41
Inflation Forecast	-2.07	-1.91	-2.10
Lower Limit	-3.12	-2.94	-3.78

Notes: (1) The ZEPARU Inflation Forecast model is an Auto-Regressive Integrated Moving Average (ARIMA) model. It was developed using past historical trends in the Consumer Price Index (CPI) from January 2009 to December 2015. (2) The “upper limit” and “lower limit” presented are based on the 95% confidence level in the model.

However, Table 2 also presents a range of possible outcomes. Some factors could lead to higher than expected inflation; for example, the extreme hot weather conditions as a result of the El Nino effect is expected to exert upward pressures particularly on prices of food items. And other factors could lead to lower than expected inflation. For example, the continued weakening of the South African rand against the US\$, and weak aggregate demand in the economy.

3 Banking and Financial Sector

3.1. Interest Rates

Summary: Interest rates in November 2015 were lower relative to 2014. This follows the implementation of interest rate guidelines capping nominal lending rates at 18% in October. However, domestic credit continues to surge on the back of increased government borrowing.

For the greater part of 2015 real weighted average lending rates were relatively higher compared to 2014 (Table 3), reflecting strong growth in credit demand and sluggish money supply growth. However, in November 2015 rates declined relative to November 2014. This was after the agreement between the central bank and banking institutions to cap maximum nominal lending rates at 18% became effective in October. The range of real lending rates, shown in the last two columns in the Table below, has also declined from 7-37% to 7-19% as a result of the guidelines.

Table 3: Commercial bank real weighted average lending rates, January - November 2014 and 2015

COMMERCIAL BANK REAL WEIGHTED AVERAGE LENDING RATES						
Period	Individuals 2014	Individuals 2015	Corporates 2014	Corporates 2015	Real Minimum Rate	Real Maximum Rate
Jan	13,62	15,64	8,85	11,08	7	37
Feb	14,64	15,61	9,85	11,28	6	35
Mar	15,29	14,62	10,28	10,07	6	35
Apr	14,52	15,78	9,41	11,80	7	35
May	14,61	15,87	9,46	11,81	8	35
Jun	14,54	15,18	9,42	11,56	8	35
Jul	13,97	15,05	9,11	11,65	8	35
Aug	14,11	15,15	9,28	11,60	7	30
Sep	14,34	15,40	9,47	11,95	8	29
Oct	14,36	14,75	9,90	10,93	8	22
Nov	15,16	15,03	10,84	10,38	7	19

Source: ZIMSTAT

While capping interest rates at 18% is helpful, in the medium to long-term it is imperative to enhance liquidity and reduce credit risk in the economy in order to sustain lower lending rates.

3.2. Bank deposit structure and loans-to-deposit ratios

Summary: Long-term deposits increased as a share of all bank deposits. This follows recent government policy action to encourage such savings and is potentially positive for the economy, allowing banks to offer more long-term finance.

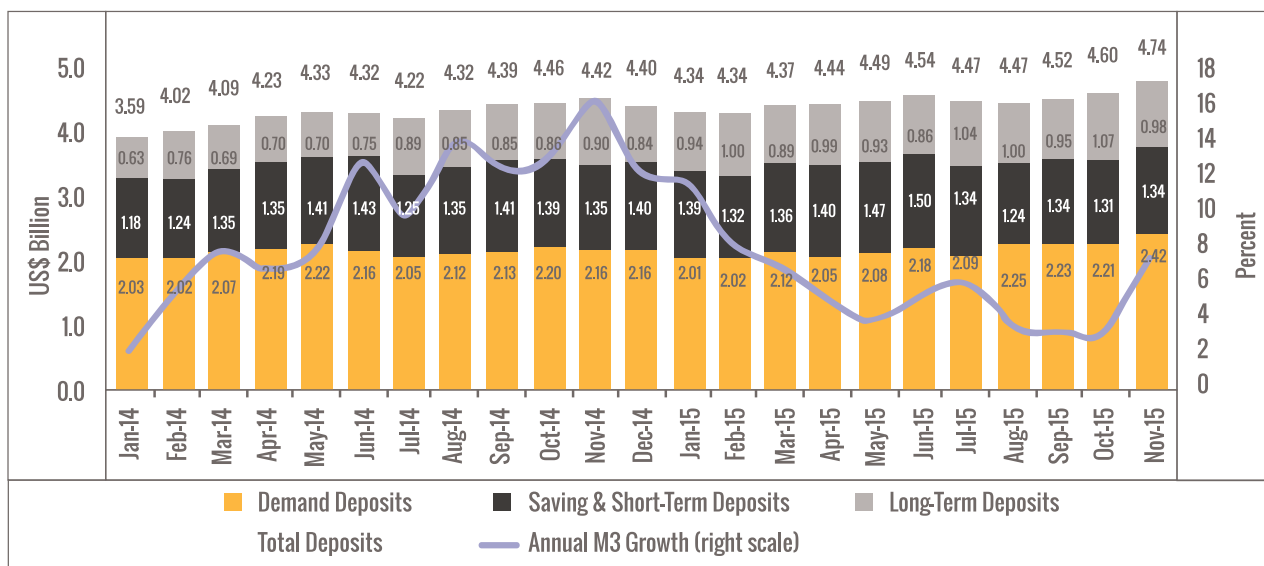
The share of long-term deposits in total deposits increased over the first 11 months of 2015. They were 21.6% compared to 18.29% in the same period in 2014 (Figure 7). The expansion of long-term deposits is important for enhancing the capacity of banks to offer medium to long-term finance to the productive sectors of the economy.

The 2016 National Budget Statement exempted from tax the interest earnings from long-term deposits which have been held for more than 12 months. This was a move to

boost long-term deposits. The amendment of the Banking Act which were approved by Government in 2015, which criminalizes negligence on, and abuse of depositors' funds by bankers, is also intended to promote growth of long-term deposits as confidence in the banking system improves.

However, there is also a need to resuscitate the lender of last resort (LOLR) function of the Reserve Bank of Zimbabwe (RBZ). With the LOLR function, banks can increase the tenure of loans, because despite the liquidity shortage they will be able to utilise the LOLR facility. The Afreximbank Trade Debt Backed Securities (AFTRADES), an interbank facility which mobilises local deposits from surplus banks to deficit banks, partly acts as the LOLR. However, the facility is less than \$200 million which translates to less than 5% of total bank deposits. Ideally, the LOLR facility should at least have resources equivalent to 5% of total bank deposits.

Figure 7: Bank deposits structure



Source: RBZ

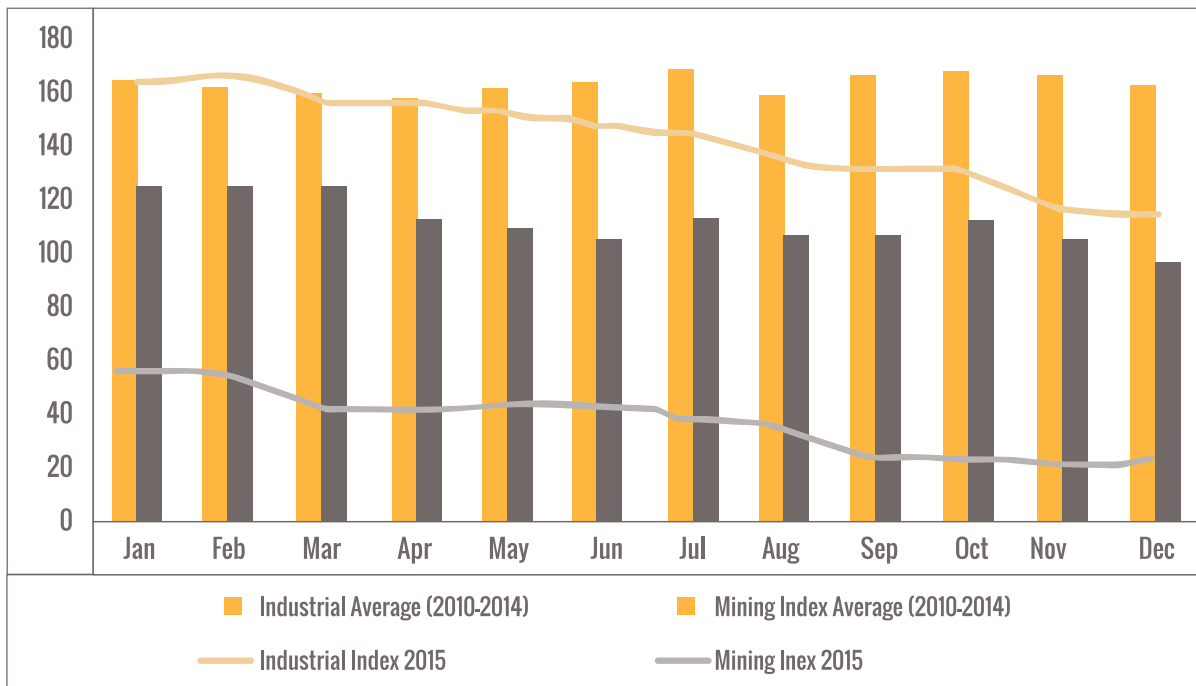
The expansion of long-term deposits is important for enhancing the capacity of banks to offer medium to long-term finance to the productive sectors of the economy.

Box 2: From the trading floor

2015 saw activities on the Zimbabwe Stock Exchange (ZSE) declining from 2014 levels. Trading was weighed down by low foreign investor participation as well as tight liquidity conditions in the domestic economy. The industrial index which opened the year at 162.57 lost 47.72 points (29.35%) to close at 114.85. For the greater part of 2015 the index fell below its five year average for the period 2010 to 2014.

The mining index followed a similar pattern. It opened the year at 72.61, but lost 48.89 points (67.33%) to close at 23.72. Thus during the year it traded below its five year average and reached its lowest level since trading resumed in the multicurrency period, of 22.33 in November 2015.

Figure 8: Trend in the Zimbabwe Stock Exchange Industrial and Mining Indices



This poor stock market performance is also reflected in falling turnover. Total turnover value, which stood at US\$452.87 million in 2014, declined by 49.52% to US\$228.6 million in 2015. The volume of shares traded also declined by 30.54% from 3.18 billion shares in 2014 to 2.21 billion shares in 2015.

Foreign investor participation on the local bourse continued to decline. The value and volume of shares bought by foreigners declined by 56.27% and 41.77% respectively while the value and volume of shares sold by foreign investors declined by 32.61% and 53.44% respectively.

Thus market capitalization which stood at US\$4.33 billion at the end of 2014, declined by 28.97% in 2015 underpinned by poor performance of the stock market. Lower stock market capitalisation implies a risky market for investment therefore this will likely affect decision to buy by foreign investors.

Outlook

In 2016 activities on the Zimbabwe Stock Exchange are expected to continue on a downward trend coupled with low investor confidence, declining economic fortunes worsened by the El Nino effect which will result in one of the most severe droughts since 1992.

3.3. Credit to the private sector

Summary: The private sector has the largest share of domestic credit (Figure 9a). However, the share is declining as government borrowing increases, which risks a higher future debt burden for government.

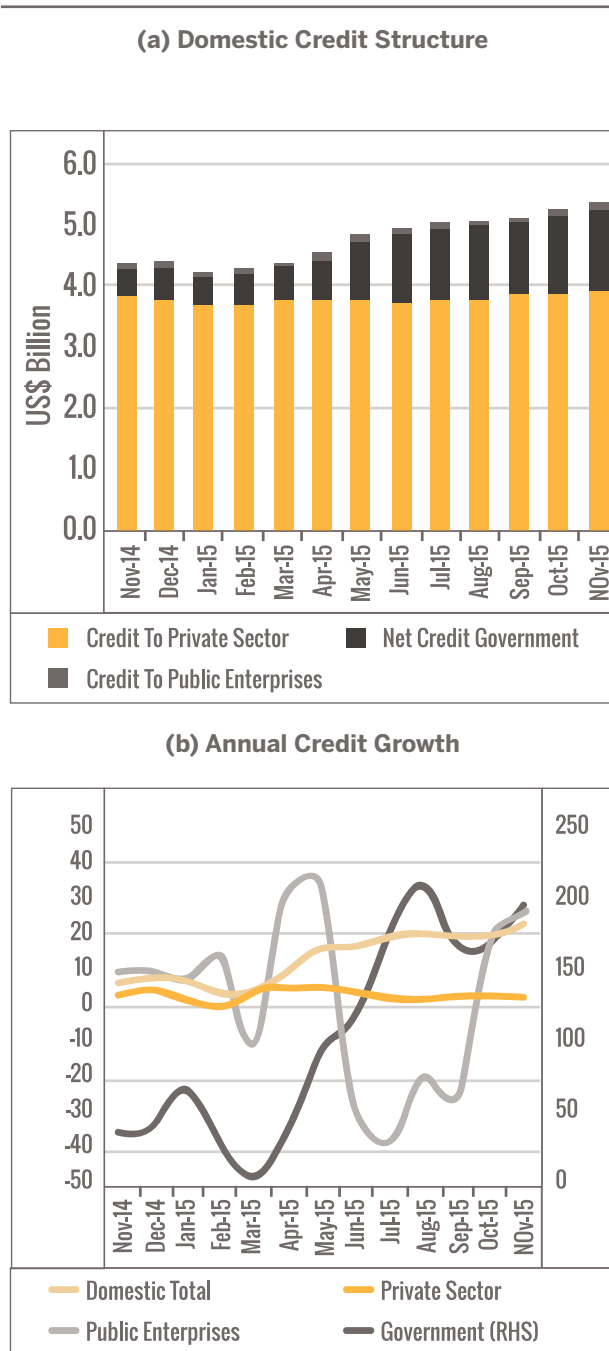
Total domestic credit has grown by more than 15% since May 2015 (Figure 9b). Such high rates were last recorded prior to November 2013 when the base of domestic credit was lower and private sector credit expanding faster. However, the recent growth in domestic credit is mainly driven by high Government borrowing, which has a number of possible implications:

- It risks crowding out the private sector.
- It will increase the future debt burden on the government budget (especially if borrowing for non-investment purposes).
- Relying more on domestic debt is often more expensive compared to external debt, which is usually on concessionary terms.

Loans and advances to the private sector increased over the period January to November 2015 to US\$2.96 billion from US\$2.88 billion in the comparable period in 2014. The sectoral distribution of these loans and advances (Figure 10) shows that:

- Agriculture received the largest share and its share has increase in 2015;
- Individuals receive the second largest share and its share has also increased in 2015;
- The shares of mining, distribution, construction, conglomerates and transport sectors have declined in 2015 while those of services, communication, finance & investments and financial organisations have increased.

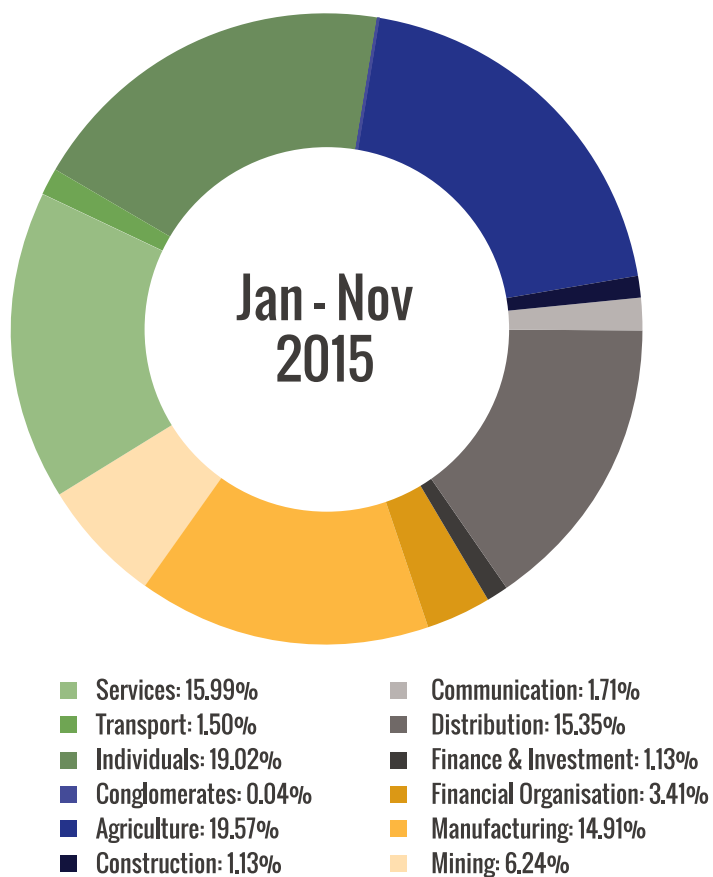
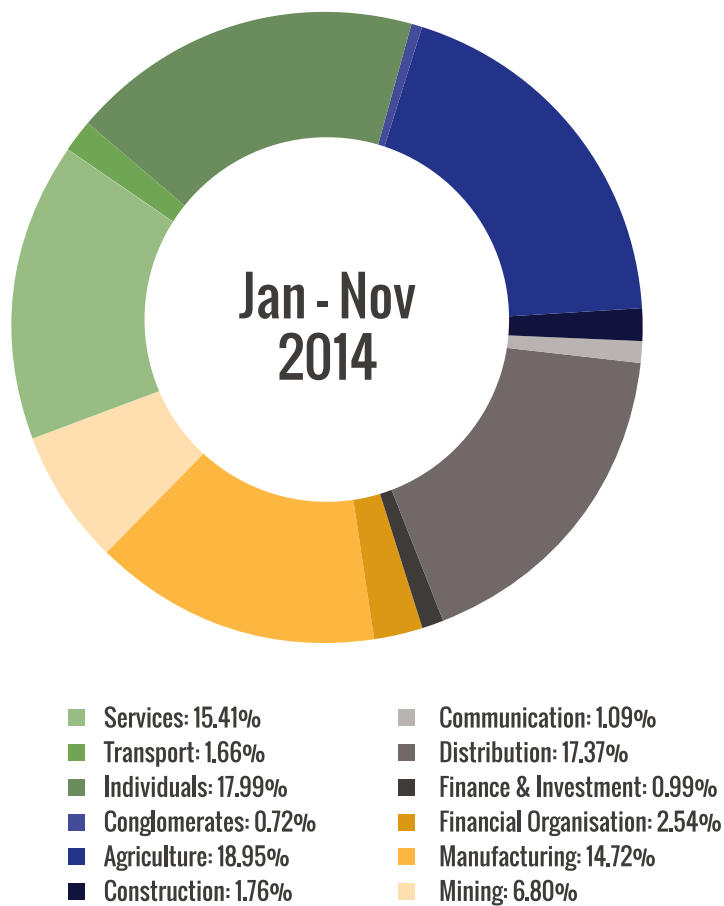
Figure 9: Domestic credit structure and growth, January - July 2014 and 2015



Source: calculated from RBZ data

Total domestic credit has grown by more than 15% since May 2015.

Figure 10: Sectoral distribution bank loans & advances, January-November 2014 and 2015



Source: Calculated from RBZ data



4 Important Economic Sectors

4.1. Agriculture

Summary: Maize supply outlook is gloomy on the backdrop of poor rain season and high grain deficit. Zimbabwe still has the largest national maize deficit in the region and the 2016 harvest looks likely to be poor. Milk production, however, increased by 3.3% in 2015 as compared to 2014.

Maize supply outlook

Zimbabwe has a national maize deficit of around 645,000 metric tonnes. This is the largest national deficit in the region. The government only allocated US\$46 million for strategic grain reserve procurement in 2016, which falls far short of the amount needed to address the deficit. As a result, it is now calling for private sector and development partner support to import enough maize to ensure food adequacy before the next harvest.

This is against a background of very serious concerns about the 2016 harvest. Late rains and a prolonged dryness have engulfed most of the country. Rains in highly productive areas started to fall 10-30 days late and subsequent rains have been erratic and below average. Zimbabwe typically receives the majority of its seasonal rains (which average 450 mm to 650 mm) between December and March. However, experts have reported that as of late December, most areas in the western and southern parts of the country had received less than 100 mm whilst some farmers in parts of Masvingo and Matebeleland South provinces are still to plant. As a result:

- The maize cropped area is currently less than a third of the area cropped during the same time last year.⁵
- The previous year's total area cropped was around 10% below the national five-year average.

The specific challenges this year are exacerbated by long-running problems: Zimbabwe has low maize yields compared with other countries in the region. 2013 World Bank data indicates that maize yield per hectare for Zimbabwe was only 0.7 tonnes/ha compared to 2.1 tonnes/ha in Malawi; 3.7 tonnes/ha in South Africa and 2.5 tonnes/ha in Zambia.

For Zimbabwe to ensure food security, the government should take short and long-term measures. In the short-term the Grain Marketing Board (GMB) requires the funding and capacity to mobilise the minimum annual strategic grain reserve of 500,000 metric tonnes of maize as per its mandate. Adequate financial support to the GMB will ensure immediate payments to farmers on deliveries and encourage them to send their deliveries to GMB thereby boosting the strategic grain reserve. In the long-term strategies that assist farmers to increase their maize yield are required by adopting new farming technologies that result in high yields.

Milk output on the increase

Milk production recorded a 3.3% increase between January and November 2015, rising from 50.616 million litres during the 2014 comparative period to 52.284 million litres. This comes after a 5-year dairy industry revitalisation project was launched by the Zimbabwe Dairy Industry Trust in October 2014. This is targeting a 5% annual increase, but a 3.3% rise in the first year is quite commendable. Reasons for the success include:

- Increased production by small holder farmers and their enhanced participation in the formal market.
- A slight increase in the national dairy herd for the first time in six years to approximately 28,000 due to the various industry driven breeding and Heifer importation programmes.

Growth of the dairy sector continues, however, to be constrained by limited access to affordable credit and the inhibiting costs of production. This calls for the government to promote the dairy sector by offering financial support through the national budget.

4.2. Manufacturing

Summary: Manufacturing indicators generally reveal a deteriorating performance in 2015. There were, however, some positive developments in some subsectors, including dairy and clothing. Government is therefore encouraged to continue to explore possible support options to enhance manufacturing activity in 2016 to continue this momentum.

⁵ Based on reports from the Department of Agricultural Technical and Extension Services.

In 2015, the overall picture for the manufacturing sector was generally negative.

- The Confederation of Zimbabwe Industries (CZI) released its 2015 Manufacturing Sector Survey⁶ results towards the end of the year, showing that capacity utilisation went down from 36.5% in 2014 to 34.3% in 2015.
- CZI's composite Business Confidence Index (BCI) for the second quarter of 2015 compared to the same period in 2014 was -37.2.⁷ This showed that manufacturers believed their situation worsened between 2014 and 2015.

The same reasons that have been suggested for manufacturing sector decline since dollarization continue to apply: these include low domestic demand; capital constraints; antiquated machinery; machine breakdowns; import competition; power cuts and poor transport infrastructure. The impact of aid also has a negative impact in the manufacturing sector, where free products are available to poor and vulnerable groups by development partners but all sourced from foreign markets.

Despite these challenges, there have been some positive developments in the industry. These include the following:

- The CZI manufacturing sector survey shows that about 47% of manufacturing firms were not idle, but had undertaken new capital investment, with almost all investment being directed at machinery and equipment for replacement and expansion.

- Positive developments were also registered in the dairy industry, where Dendairy started exporting to Mozambique, while Alpha Omega Dairy Limited also penetrated the Botswana market.

- The clothing manufacturing industry saw about six clothing manufacturers making a total of about US\$250 000 every month from exports to South Africa, exploiting the Bilateral Trade Agreement with South Africa.

- There were examples of firms from different sectors that undertook strides to improve their production capacity in 2015. Profeeds, which specialises in chicken feed, invested close to US\$6 million in a new plant. Nampak Zimbabwe also injected about US\$2.5 million into new tobacco box equipment at Hunyani Corrugated Products and over US\$2.5 million for expansion of the pre-form making capacity at Mega Pak. National Foods, an agriculture food processor, had also invested over US\$20 million in upgrading operations since 2009 and was targeting an additional US\$8 million further upgrading of the flour milling plants in Harare and Bulawayo in 2015.

Government is therefore encouraged to continue to explore possible support options to enhance manufacturing activity in 2016 to maintain this momentum. In addition to industry protection through tariffs, the general ease of doing business reforms should continue to be prioritised. The bureaucratic and costly process of obtaining licences as well as the costs incurred in complying with existing licences needs attention. Value chain linkages between the manufacturing sector and primary industries such as agriculture and manufacturing should also continue to be prioritised.

⁶ For full details see the survey results at the CZI website www.czi.co.zw

⁷ This is an index, where the general rule is that a value above zero indicates business optimism, a value below zero, pessimism, and 0 indicates neutrality. Thus, the negative value shows pessimism.

4.3. Mining

Summary: Total gold deliveries in 2015 reached about 18.305 tonnes falling short of the target of 18.7 tonnes by about 2.1%. Small scale miners' contribution to total deliveries doubled in just two years from 19.2% in 2013 to 40.1% in 2015 despite the general slump in international gold prices. If this trend continues the contribution of small scale miners will overtake that of primary producers to register about 51.1% by 2018.

Gold sector

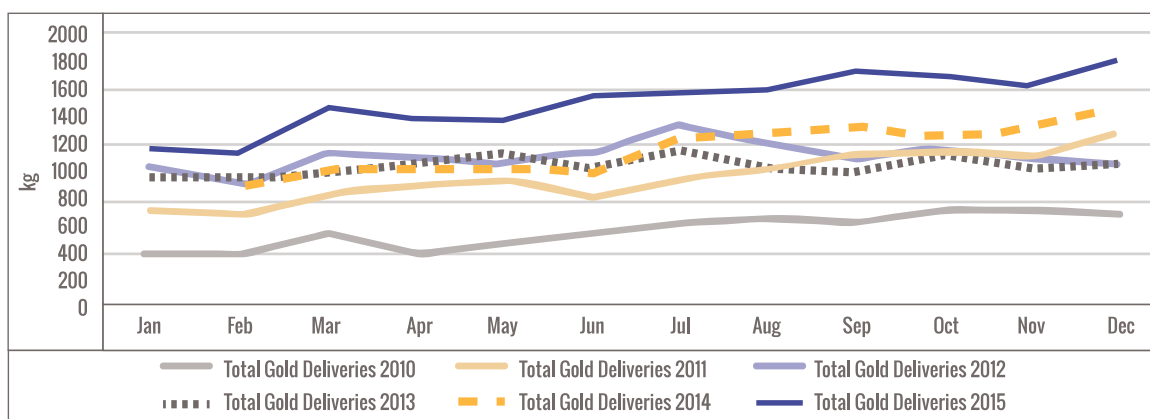
In 2015 total gold deliveries registered a remarkable increase of about 31.7% to reach 18.305 tonnes compared to same period in 2014 (Figure 12). This was slightly short of the 2015 target (18.7 tonnes) but still impressive. The 2016 National Budget Statement set the 2016 target at 20.1 tonnes, or a 7.5% increase from the 2015 target.

The contribution of small scale miners to total deliveries continued to escalate in 2014 and 2015 registering a

phenomenal increase in its contribution from 19.2% in 2013 to 28.3% and 40.1% in 2014 and 2015, respectively. This resulted in doubling of deliveries by small scale miners in just two years from 2013 to 2015, despite the general slump in international gold prices. Primary producers⁸ scaled down overall production in 2013 and 2014 by 5.8% and 2.4%, owing to reduced profitability due to declining international gold prices coupled with fixed overhead costs.

The average growth rate of 3.7% for the contribution of small scale miners to gold deliveries between 2011 and 2015 implies that they will overtake primary producers by 2018. If the trend continues at the same pace by 2018 51.1% of gold will be mined by small scale miners. But this overtaking of primary producers could happen sooner. For example, the growth rate could accelerate at the faster rate registered in 2014 and 2015 (62.5% and 86.4% respectively) and this could be combined with a slower recovery of primary producers' deliveries.

Figure 11: Gold Deliveries, January – December, 2010 - 2015



Source: Fidelity Printers and Refineries

Platinum

Platinum mining companies are expected to have set up a base metal refinery by 31 December 2016. Failure to complete the refinery within the expected timeframe will attract a 15% tax on the exportation of raw platinum effective 1 January 2017. The intention by the government to impose the export tax is meant to encourage beneficiation of platinum which is currently exported as concentrates (Mimosa and Unki) and matte (Zimplats). The base metal refinery separates minerals such as copper and nickel from the high-grade platinum group metals concentrate, which is provided to the precious metals refinery for final separation of the pure precious metals.

Opportunities for downstream industrial activity such as vehicle manufacturing, biomedical equipment manufacturing, jewellery manufacture and electronics industry may need to be explored. However, there might be resistance to Zimbabwe producing the various PGM products for a number of reasons. Zimbabwe products

may find stiff resistance to enter external markets as the host countries may impose protectionist policies to protect their established industries. Smart partnerships will have to be established.

In 2015 the global platinum market is expected to register a 32.6% reduction in the deficit to 300 koz as compared to same period in 2014 (World Platinum Investment Council, 2015). The reduction in the deficit will be underpinned by a 6% increase in global supply to 7,730 koz as South Africa returns to pre-strike production levels. This is coupled with stronger automotive demand particularly in Western Europe as the implementation of Euro 6 emissions legislation continues and a general increase in vehicle sales in 2015⁹. Global demand is also forecast to expand slightly by 0.1% to 8,030 koz as stronger automotive, industrial and investment demand more than offsets a drop in jewellery demand. In 2016, the platinum market will close the deficit as total mining supply is expected to grow by 4% year-on-year.

⁹ Use of Euro 6 regulation requires manufacturers to produce platinum-catalysed vehicles to reduce emissions for nitrogen oxides in Europe.

Box 3: 2016 National Budget Statement developments on mining

A number of measures related to mining were announced in the 2016 National Budget Statement. This box assesses these.

Establishment of e-government and Cadastre Mining Titles Management Information Systems

The e-government and Cadastre Mining Titles Management Information Systems will computerise the country's register of minerals information, including mineral rights and title, claims and mineral quantum. The proposal to implement this is a positive development as it enhances efficiency in managing claims and disputes resolution.

The Zimbabwe Geological Survey Department Capacitation¹⁰

The 2016 National Budget Statement proposed implementing the Zimbabwe Geological Survey. This is a positive development given that extensive exploration has only been carried out for about 60-65% of the country.

In 2009 Zimbabwe's gold reserves were estimated at 13 million tonnes¹¹. However, unlike the Witwatersrand stratiform gold reefs in South Africa where future reserves can be determined with some precision, the Zimbabwean greenstone belt gold resources are notoriously difficult to extrapolate with accuracy, without extensive drilling and assaying¹².

Mapping currently unmapped areas and remapping other areas with advanced technology could result in new discoveries of gold and other minerals. Remapping of the whole country with more advanced technology may also help accurately quantify the mineral reserves into "known", "unknown" and "partly known" mineral resources. This will help make informed decisions when negotiating new mining leases with potential investors.

Royalty for gold and other fees and charges

The Budget Statement proposed a reduced royalty rate to 3% on incremental output of gold using the 2015 production as a base year. This came into effect on 1st January. However, the normal rate for primary producers was maintained at 5% after a reduction from 7% with effect from the 1st of October, 2014.

The new 3% rate is a positive development but is still higher than the 1-2% recommended by ZEPARU¹³. Royalty rates for all minerals in Zimbabwe are too high (1-15%). They sterilise resources when economically viable resource deposit is prevented from being extracted as mining companies raise the cut-off grade of mineral deposit to be extracted. This encourages sub-optimal extraction.

A review of selected mining fees and charges will also be undertaken in consultation with the Ministry of Mines and Mining Development in the first quarter of 2016. Rationalisation of fees and charges by government agencies such as the Environmental Management Agency (EMA), the Radiation Protection Authority and the Rural District Councils is also a positive development as this is expected to lower the overall costs and also reduce the time required for processing of these fees and licences. The proposed new mining regime is expected to reduce the overall cost of production, which is in line with enhancing doing business in Zimbabwe.

⁹ This is a department under the Ministry of Mines and Mining Development

¹⁰ Reserve Bank of Zimbabwe, Monetary Policy Statement, February 2009

¹² ZEPARU Mining Sector Policy Study, 2012

¹³ ZEPARU Mining Sector Policy Study, 2012

5 External Sector

Summary: Zimbabwe's exports continue to be characterised by a lack of diversification. The top five export products for 2014 and 2015 remain unchanged. This lack of diversity increases vulnerability to shocks, especially with respect to commodity prices.

Total imports of goods between January and November 2015 were about \$5.5 billion, while total exports during the same period were about \$2.5 billion. Compared to the same period in 2014, imports and exports decreased by 5.76% and 12.22% respectively.

The appreciation of the US\$ has meant that 2015 imports were generally expected to be more than those of 2014. The decrease can, however, be attributed to liquidity challenges as well as the import tariffs that were introduced to protect the domestic industry from imports. The decrease in exports is generally as expected, given that the appreciation of the US\$ reduces the incentive to export.

The composition of imports and exports has changed little between 2014 and 2015. The single largest product for imports remains fuel, which constituted about 25% of total imports in 2015 and 23.5% over the same period in 2014. While the top five export products in 2015 remain the same in 2015 compared with 2014 (Table 4), some trends are worth noting:

- Tobacco's contribution to total exports increased by approximately five percentage points in 2015 compared to 2014.
- Gold's contribution to total exports increased by approximately four percentage points over the same period.
- The contribution of the other three leading export products (ores and concentrates, ferro-chromium and diamonds) all fell in 2015 compared to 2014.
- The volume of tobacco and gold exports increased by about 3.2% and 12.7% respectively in volume.
- The volume of ores and concentrates, ferro-chromium and diamonds exported all registered a decrease in export volumes by about 36%, 41% and 20% respectively. The decrease for these mining sector exports can be attributed to falling commodity prices.

Given the continued fall in commodity prices, the increase in gold's contribution to exports underlines the resilience of the product. In Zimbabwe's case the contribution from the small scale players (as already discussed in the section on mining) has been particularly important.

Table 4: Performance of top five Export products for Zimbabwe, January - November 2014 and 2015

	2014		2015	
	Total exports (US\$ millions)	Percentage of total exports	Total exports	Percentage of total exports
Tobacco	766.7	27.07	791.6	31.84
Gold	496	17.51	558.9	22.48
Various ores & concentrates	335	11.83	213.6	8.59
Ferro-chromium	250.2	8.83	147.2	5.92
Diamonds	206.7	7.30	166.3	6.69

Source: Calculated from ZIMSTAT database



6 Special feature: Special Economic Zones: Lessons for Zimbabwe

Summary: About 4,300 zones in over 130 countries are operational globally of which 114 economic zones are established in 30 countries in Sub-Saharan Africa. In Zimbabwe the Cabinet has approved the SEZ Bill and areas earmarked for SEZs have been identified. SEZs are however, not a panacea, to solving all economic challenges. Instead, they catalyse deeper economic reforms and become a major engine for national development through backward and forward linkages with the rest of the domestic economy.

Context: an idea on the rise

The concept of Special Economic Zones (SEZs) and their impact on economic growth is gaining more and more acceptance globally and the instrument has been widely applied. The aim of SEZs is to stimulate economic development by attracting local and foreign direct investment (FDI), enhancing competitiveness, and facilitating export-led growth. These then lead to economic benefits from employment generation to export growth and increased government revenues to improved technology transfer and innovation.

Definition and Types of SEZs

So, how do they work? According to the World Bank, SEZs are geographically delimited areas, administered by a single body, offering certain incentives for businesses that locate and operate within the zone.

They vary in size and scope and can include, for example:

- Free trade zones;
- Export-processing zones (EPZs);
- Industrial parks;
- Economic and technology development zones; and
- Science and innovation parks.

They can be implemented using a variety of institutional structures ranging from fully public (with government acting as operator, developer and regulator) through to fully private (with the private sector acting as operator and developer and the public sector only regulating). They offer a combination of serviced land, quality infrastructure, expedited customs and other administrative procedures, and other incentives that aim at overcoming investment barriers.

Rationale for Establishing SEZs

In general, SEZs confer two main types of benefits, which in part explain their popularity: “static” economic benefits such as employment generation, export growth, government revenues, and foreign exchange earnings; and the more “dynamic” economic benefits such as skills upgrading, technology transfer and innovation, economic diversification and productivity enhancement of local firms.

SEZs are typically established with the aim of achieving one or more of the following four policy objectives:

Attracting foreign direct investment (FDI);

Serving as “pressure valves” to alleviate large-scale unemployment;

Supporting a wider economic reform strategy; and

Acting as experimental laboratories for the application of new policies and approaches.

Investing in SEZs can also offer the following benefits:

Provide a bundling of public services in a geographically concentrated area;

Improve the efficiency of limited government funding/budget for infrastructure;

Facilitate cluster development, or agglomeration of certain industries; and

Propel urban development; provide conducive living conditions for workers and facilitate conglomeration of services, including obtaining economies of scale for environmental services such as water treatment plants and solid waste treatment plants.

Impact of SEZs

Their use by policy makers is on the rise:

A World Bank researcher, Zeng (2015) reported that there are around 4,300 zones in over 130 countries.

These SEZs employed more than 68 million people.

In China it has been estimated that SEZs accounted for about 22% of national GDP, 46% of FDI, and 60% of exports and generated in excess of 30 million jobs (Zheng, 2014).

The most successful Chinese SEZ, Shenzhen, has developed from a small village into a city with a population of over 10 million within 20 years.

Of the 4,300, about 114 economic zones were reported to be established in around 30 countries in Sub-Saharan Africa (SSA).

Context: in Zimbabwe

The existing economic zones in Sub-Saharan Africa are in the early stages of development and have involved traditional EPZs and industrial parks. The Cabinet has approved the SEZ Bill, which proposes modern large scale multi-use SEZ development programs. The establishment of SEZs is identified as key success factor in the attainment of the broad economic goals set out in ZimASSET. SEZs are critical in facilitating Zimbabwe's transition from a primary producer to a producer of high value manufactured goods.

From 1996 to 2006, Zimbabwe implemented EPZs anchored by the EPZ Act of 1995. The EPZ was mainly an export oriented regime, requiring firms to export at least 80% of their production and retain 20% for the domestic market. The entire EPZ programme resulted in 205 companies established, generating an estimated US\$172 million worth of investment creating 32,512 jobs and a cumulative US\$1.15 billion in export earnings. Moreover, about 21.6% of the approved projects were attributable to FDI.

However, EPZs suffered some challenges which include:

- Weak coordination due to multiplicity of legislation which were administered by various government agencies;
- Complicated customs administration due to the fact that EPZ companies were scattered across the country;
- Limited technology transfer; and
- Proliferation of tax incentives outside the zones, hence resulting in preference erosion.

This resulted in the discontinuation of the programme in 2006 when the EPZ Authority was merged with the Zimbabwe Investment Centre (ZIC) to form the Zimbabwe Investment Authority (ZIA) through the ZIA Act. Companies in the EPZs were allowed to continue operating under the EPZs framework until the expiry of their licenses and some of the companies are still in existence.

Despite the limited success of EPZs in Zimbabwe, the setting up of a one-stop investment shop and strong government buy-in in SEZs are some of the positive factors which enhance establishment and performance of SEZs. Prioritised sectors are agriculture, tourism, mining, services and manufacturing. Pilot projects are highlighted in Table 5.

Table 5: SEZs Pilot Projects for Zimbabwe

PROJECT	COVERAGE	RESPONSIBILITY
Tourism-focused SEZ & Financial hub	Victoria Falls	Ministry of Tourism and Hospitality Industry and Ministry of Finance and Economic Development / Reserve Bank of Zimbabwe
Integrated industrial park i.e Technology hub	Sunway city, Harare	Ministry of Industry and Commerce
Leather and Textile manufacturing	Bulawayo	Ministry of Industry and Commerce
Diamond cutting and polishing	Harare/Mutare	Ministry of Mines and Mining Development
Chemical manufacture (exploiting coal bed methane)	Lupane	Ministry of Industry and Commerce

The types of SEZs being considered are presented in Table 6.

Table 6: Types of SEZs Under Consideration

TYPE OF SEZ	DESCRIPTION
Single factory	Identifying and designing factories and companies operating at very low capacity or idle infrastructure.
Product specific	Identifying and designing certain priority products to qualify for special incentives.
Multi-sectorial wide	Designing specific sector and geographical areas of SEZs.
Industrial park	Designing areas for industrial development.
Knowledge based	Incentivising investments that utilise human capital endowment and exploit the knowledge and skills for excellence and export.

Financing Options for SEZ

Different financial options for SEZs under consideration by the government include the following:

- Public Private Partnerships (PPPs);
- Private developer funding;
- The leveraging of existing infrastructure;
- Pension funds; and
- Development partners.

When are SEZs successful?

The global experiences with SEZs have shown mixed results. Countries including China, Singapore, Malaysia, South Korea, Jordan and Mauritius have shown positive results. Except for the Mauritius' success story and some modest achievements in Lesotho, Kenya and Madagascar, SEZs record in Africa is more mixed. The vast majority of SEZs have not had a transformative impact. In some instances SEZs in Africa are not integrated effectively with the local economy, and did not facilitate industrial upgrading, or act as a catalyst of wider economic reforms. Other reasons for this poor performance could include:

- Poor choice of location and insufficient strategic planning and management.
- Inadequate infrastructure (for example, in access roads, energy, water etc.)
- Ineffective policy, regulatory and institutional frameworks.
- Poor business environment.
- Lack of political leadership and buy-in.

Lessons for Zimbabwe

Despite the experience to date, governments throughout Africa (now, including Zimbabwe) remain keen to develop SEZ programs. So the question is how to maximise the chances of success. Drawing on the literature and international experience, the following 10 lessons can be proffered for Zimbabwe.

1. A sound legal and regulatory framework and effective institutions are critical: the regulatory institution must be autonomous and adequately funded.
2. Both a strong and long-term commitment from government and active participation of the private sector is essential.
3. Linkages with the local market need to be strong: zones need to build on local comparative advantage in priority sectors.
4. A better business environment inside the zone,

including efficient services, such as a one-stop shop is critical.

5. Integration of the zone master plans into regional urban development plans enhance economic and social benefits.
6. Location is important: Zimbabwe should implement SEZs starting with those areas that are easily accessible.
7. Partnering of foreign and local investors through joint ventures is an excellent vehicle for technology transfer.
8. Being market-oriented matters: often this means a zone being developed and operated by private sector groups on a commercial basis.
9. Delivery of external infrastructure (power, roads, water, waste management and information and communication technology (ICT)) is critical.
10. Effective environmental impact management strategies are a must for sustainable development of the zones.

Conclusion

A key lesson drawn from international experience is that SEZs are, not a panacea, to solving all economic challenges. Instead, they catalyse deeper economic reforms and become a major engine for national development through backward and forward linkages with the rest of the domestic economy. In this regard they need to be complemented by the implementation of other policy initiatives and strategies outlined in the country's development programme ZimASSET. In the Zimbabwean context initiatives to reduce the debt burden, expanding and modernising infrastructure; improvement in public service delivery; conducive doing business environment and improvements in productivity will all facilitate the success of the proposed SEZs. Furthermore, deeper research and dialogue is still required to inform policy decisions and implementation strategies to ensure SEZs have a transformational impact in Zimbabwe.

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Statistical

Table 1A: International Commodity Prices

	2013									2014					
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Gold (US\$/oz.)	1486.05	1414.26	1342.66	1287.22	1347.26	1348.63	1315.25	1233.50	1223.35	1241.82	1299.83	1336.71	1298.80	1289.06	1278.49
Platinum (US\$/oz.)	1487.94	1476.80	1430.98	1399.02	1494.55	1459.40	1413.52	1360.50	1357.18	1420.43	1409.51	1451.1	1431.40	1451.79	1452.60
Brent crude (\$/bl.)	102.77	103.68	103.23	107.14	110.08	111.02	109.32	110.25	110.47	107.44	198.69	107.19	107.99	109.2	111.77
Maize (US\$/t) 3YC	279.00	295.50	298.40	279.50	238.70	207.4	201.7	199.1	197.4	198.1	209.3	222.3	222.4	217.3	202.4
Wheat (US\$/t) HRW	308.30	319.70	313.40	304.6	305.3	307.5	325.7	306.8	291.6	275.5	292.3	323.6	324.9	334.7	306.5

	2015														
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Gold (US\$/oz.)	1,310.78	1,361.77	1,240.26	1,222.97	1,177.43	1,201.08	1,250.40	1,229.14	1,179.51	1,198.93	1,198.63	1,181.50	1128	1118	1125
Platinum (US\$/oz.)	1,474.00	1,444.92	1,364.91	1,261.33	1,208.80	1,217.98	1,242.12	1,200.03	1,139.59	1,151.29	1,140.40	1,088.82	1009	984	964
Brent crude (\$/bl.)	108.27	103.21	98.72	88.04	80.04	63.78	49.78	58.71	57.02	59.39	64.56	62.34	55.90	47	47.20
Maize (US\$/t) 3YC	182.7	176.4	163.1	163.31	178.67	178.67	174.7	173.7	174.23	172.05	166.29	166.72	179.60	162.60	165.60
Wheat (US\$/t) HRW	280.4	263.4	263.4	245.39	258.66	178.67	248.5	237.2	230.83	223.35	215.15	209.87	197.40	179.80	172.70

	2015		
	Oct	Nov	Dec
Gold (US\$/oz.)	1159.25	1086.44	1068.25
Platinum (US\$/oz.)	976.91	885.2	860.82
Brent crude (\$/bl.)	46.96	43.11	36.57
Maize (US\$/t) 3YC	171.39	166.16	163.95
Wheat (US\$/t) HRW	172.71	176.94	173.71

Sources: BBC, Kitco, IGC and World Bank

Tables

Table 1B: Annual Inflation (%)

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	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
2.51	2.98	2.76	2.49	2.20	1.87	1.25	1.28	0.86	0.59	0.54	0.33
Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
0.41	-0.49	-0.93	-0.26	-0.2	-0.08	0.313	0.151	0.093	-0.001	-0.784	-0.796
Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
-1.280	-1.397	-1.203	-2.648	-2.702	-2.813	-2.771	-2.768	-3.112	-3.288	-2.458	-2.473

Source: ZIMSTAT

Table 1C: Monthly 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
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	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
0.07	0.95	0.21	-0.07	-0.21	-0.31	-0.38	-0.15	0.1	-0.01	0.09	-0.08
Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
0.1	0.0	-0.2	0.58	-0.1	-0.03	0.014	-0.309	-0.005	-0.107	-0.692	-0.092
Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
-0.343	-0.069	-0.028	-0.888	-0.187	-0.139	0.057	-0.305	-0.359	-0.2886	0.1605	-0.1073

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	0.12	0.21	144.3	0.12	0.21
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	0.85	0.1	51.6	0.85	0.1
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	0.50	0.49	27.2	0.50	0.49
Jan-13	Feb-13	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13
21.1	12.9	10.5	14.9	12.2	6.9	4.3	5.8	4.9	3.6	-0.5	1.2
Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14
2.1	5.5	7.8	6.6	7.7	12.6	9.6	13.9	12.2	12.8	16	12.0
Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
11.6	7.9	6.8	4.9	3.8	5.1	5.9	3.5	3.2	3.2	7.4	

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	665,502,187.37	606,712,339.28	499,162,649.69	532,812,989.20	963,636,659.42
	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13	Dec-13
Imports (c.i.f) US\$	580,022,084.09	714,119,959.17	572,670,192.57	704,166,464.02	750,242,891.51	609,822,385.88	594,277,521.35	576,576,957.51
	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Imports (c.i.f) US\$	480,351,495.87	472,184,316.82	494,671,613.50	483,245,573.29	503,073,124.68	517,995,487.96	533,944,834.87	543,417,767.75
	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Imports (c.i.f) US\$	572,252,776.27	633,269,082.57	556,276,151.33	522,620,007	538,178,171	502,997,558	529,086,320.45	465,892,977.15
	May-15	Jun-15	Jul-15	Aug-15	Sept-15	Oct-15	Nov-15	
Imports (c.i.f) US\$	473,376,188.38	555,082,880.19	496,315,855.0	458,635,869.7	583,700,041	515,806,056	449,148,937	

Source: ZIMSTAT

Table 1F: Total Exports 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	226,974,74	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	279,555,179.97	279,047,033.21	253,927,213.43	209,914,486.89
	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13	Dec-13
Exports US\$	278,314,631.72	244,883,722.02	287,436,036.77	282,668,224.22	308,664,376.66	363,714,306.95	467,471,012.11	251,838,635.33
	Jan-14	Feb-14	Mar-14	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Exports US\$	277,563,147.21	192,032,920.99	156,345,608.25	178,576,355.28	183,318,898.20	236,713,622.86	268,353,061.41	317,253,586.99
	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Exports US\$	229,225,557.58	371,204,223.66	409,891,547.90	3063,736,610	267,020,357	260,790,963	188,755,985.50	185,693,609.05
	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	
Exports US\$	137,891,305.41	192,909,656.34	204,893,213.6	142,394,233.1	223,505,368	236,206,477	408,114,605	

Source: ZIMSTAT

Table 1G: Total Deposits

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13
Demand Deposits	2,086,622.60	2,045,215.90	1,989,201.50	2,038,302.96	2,011,314.80	2,063,250.80
Saving and Short-Term Deposits	1,353,710.50	1,297,619.00	1,284,243.30	1,325,030.04	1,252,640.40	1,305,501.10
Long-Term Deposits	526,409.40	675,306.60	564,762.50	491,588.70	532,281.50	541,907.50
	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sept-14
Demand Deposits	2,187,480.80	2,216,134.90	2,162,978	2,053,953.30	2,120,481.20	2,130,801.00
Saving and Short-Term Deposits	1,345,518.38	1,414,002.10	1,434,428.20	1,277,632.40	1,354,263.20	1,405,171.50
Long-Term Deposits	697,459.42	695,593.50	726,158.90	892,485.20	847,331.40	852,530.20
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sept-15
Demand Deposits	2,054,661.81	2,082,157.70	2,182,139.20	2,093,086.30	2,237,855.40	2,232,108
Saving and Short-Term Deposits	1,395,888.80	1,473,507.50	1,497,588.80	1,342,485.20	1,238,419.50	1,341,351
Long-Term Deposits	986,544.70	929,985.60	864,281.70	1,038,388.80	996,773.30	950,071

	Oct-13	Nov-14	Dec-13	Jan-13	Feb-14	Mar-14
Demand Deposits	2,084,448.30	1,944,000.70	1,959,980.20	2,076,817.80	2,022,120.80	2,074,823.70
Saving and Short-Term Deposits	1,256,126.90	1,246,497.10	1,249,835.60	1,177,329.10	1,242,453.40	1,332,280.44
Long-Term Deposits	611,107.70	616,612.60	722,509.30	634,498.40	757,205.40	686,835.06
	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Demand Deposits	2,202,570.5	2164484.4	2,158,488.80	2,007,554.30	2,017,876.10	2,120,237.80
Saving and Short-Term Deposits	1,391,221.6	1,351,823.4	1,403,151.80	1,393,198.60	1,317,275.60	1,360,751.90
Long-Term Deposits	863,467.6	899,157.8	841,479.60	938,805.50	1,001,638.50	888,036.30
	Oct-15	Nov-15				
Demand Deposits	2,214,438	2,419,448				
Saving and Short-Term Deposits	1,309,103	1,337,500				
Long-Term Deposits	1,072,841	982,447				

Source: RBZ

Table 1H: Gold Deliveries

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Gold Production (kg)*	1082	1131	1033	1189	1049	1012	1136	1028	1080	937	931	1040
Gold Production (kg)*	Apr-14 1039	May-14 1021	Jun-14 1019	Jul-14 1248.5	Aug-14 1283.3	Sep-14 1335.9	Oct-14 1268.1	Nov-14 1310.2	Dec-14 1475.5	Jan-15 1111.6	Feb-15 1169.3	Mar-15 1,546.2
Gold Production (kg)*	Apr-15 1,350.3	May-15 1,406.2	Jun-15 1,668.7	Jul-15 1,601.8	Aug-15 1,614.4	Sep-15 1742.2						

Sources: Fidelity Printers and Refineries, * monthly averages

Table 1I: Government Budget

	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sept-13	Oct-13	Nov-13	Dec-13	Jan-14	Feb-14	Mar-14
Revenues (US\$m)	271.0	303.6	395.2	323.0	306.7	353.4	278.2	259.1	380.8	251.7	236.0	317.8
Spending (US\$m)	246.2	340.5	333.2	397.7	314.0	298.7	388.7	305.1	483.02	235.9	264.8	265.7
Balance (US\$m)	24.8	(36.9)	62.0	(74.7)	(7.3)	54.8	(110.6)	(45.9)	(102.3)	15.8	(28.8)	52.1
	Apr-14	May-14	Jun-14	Jul-14	Aug-14	Sept-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Revenues (US\$m)	285.1	275.8	1,366.4	292.2	306	329.6	306.8	318.9	387.8	272.0	256.4	302.4
Spending (US\$m)	357.6	278.3	1,402.4	345.4	310.2	357.1	344.2	423.2	359.3	398.9	285.3	321.1
Balance (US\$m)	(72.6)	(2.5)	(36)	(53.3)	(4.2)	(27.5)	(37.4)	(104.2)	28.5	(126.9)	(28.98)	(18.7)
	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sept-15	Oct-15	Nov-15				
Revenues (US\$m)	271.0	258	355.6	315.31	265.91	333.42	288.23	282.88				
Spending (US\$m)	289.9	217.9	409	358.83	277.52	356.72	320.69	348.76				
Balance (US\$m)	(18.9)	40.8	(54.1)	(43.52)	(11.61)	(423.57)	(23.46)	(74.41)				

Sources: Ministry of Finance, Note: monthly averages

Table 2A: Annual Economic Growth

Growth	2008	2009	2010	2011	2012	2013	2014
GDP Growth (%)	-17.7	5.4	11.4	11.9	10.6	4.5	3.1*
GDP (US\$ Million)	4,416	5,899	8289.6	10068	11597*	-	-

Source: ZIMSTAT,* estimates

Table 2B: International Commodity Prices

	2008	2009	2010	2011	2012	2013	2014	2015
Gold (US\$/oz.)	871.64	982.50	1,218.59	1,358.42	1,766.71	1,397.1	1,271.58	1160.04
Platinum (US\$/oz.)	1,577.00	1,212.25	1,608.23	1,721.92	1,530.71	1,474.50	1,382.40	1053.29
Brent crude (\$/bl.)	-	-	-	-	111.31	108.41	99.59	50.75
Maize (US\$/t) 3YC	-	-	-	291.70	298.40	259.4	192.88	169.75
Wheat (US\$/t) HRW	-	-	-	316.30	313.20	312.2	278.95	203.18

Source: International Grain Council, World Bank

Table 2C: Trade & Balance of Payments

	2008	2009	2010	2011	2012	2013	2014	2015
Exports - Total Goods (US\$ Millions)	1660.43	1613.27	3245.45	3557.02	3883.64	3,507.43	3,063.74	
Imports - Total Goods (US\$ Millions)	2629.55	3213.07	5864.93	8594.28	7483.99	7,704.22	6,379.76	

Sources: ZIMSTAT

Table 2D: Banks Deposits and Credit

	2009	2010	2011	2012	2013	2014
Deposits (Annual Average) (US\$ Million)	-	-	2,793.73	3,593.81	3,874.71	4,361.86
Bank Credit to Private Sector (Annual Average) (US\$ Million)	-	1,235	2,344	3,100	3,600	2,887
Loan/Deposit Ratio (Annual Average) %	-	-	83%	87.3%	94.1%	86.6%

Sources: ZIMSTAT

Table 2E: Zimbabwe Stock Exchange Indices

	2009	2010	2011	2012	2013	2014	2015
ZSE Industrial Index (End Period)	151.99	151.3	145.86	152.40	202.12	162.79	114.85
ZSE Mining Index (End Period)	185.5	200.4	100.7	65.12	45.79	71.71	23.72

Source: Zimbabwe Stock Exchange

Table 2F: Business / Production Indicators

	2008	2009	2010	2011	2012	2013	2014	2014
Gold Production (Kg)	3 579.00	4 966.00	-	12993	14735.12	14,065.23	13,908.5	13,908.5
Platinum Production(Kg)	5 495.10	6 848.90	-	10827	10524.24	13,065.64	12,482.73	12,482.73

Source: Zimbabwe Stock Exchange

Table 2G: Government Budget

	2009	2010	2011	2012	2013	2014	2014
Revenues (US\$ Million)	934	2,198	2,770	3,452	3,741	3,815	3,815
Spending (US\$ Million)	966	2,228	3,102	3,746	3,987	3,912	3,912
Balance (US\$ Million)	(32)	(30)	(332)	(294)	(246)	(96)	(96)

Source: Zimbabwe Stock Exchange

