ZIMBABWE MONTHLY ECONOMIC REVIEW

ISSUE NO. 7. JULY 2012

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Zimbabwe Field Office

1. INTERNATIONAL COMMODITY PRICE DEVELOPMENTS

The beginning of the month saw the Euro becoming stronger against the US dollar by 0.66 percent (on a weekly scale). Furthermore, other "important" currencies such as the Australian dollar and Canadian dollar also sharply appreciated against the US dollar by 2.24 percent and 1.39 percent, respectively. The rally in the Euro/USD and AUD/USD may have been among the factors to curb the decline in gold and silver during the first few days of the last week of June. During the week ending June 22, the market was left in disappointment after the Federal Reserve did not announce a more aggressive monetary policy stimulus as expected. The markets had been anticipating further monetary easing to maintain pressure on long-term interest rates and thereby keeping the opportunity cost of holding gold relatively low. Increased monetary easing would also enhance demand for gold as an alternative asset class to store value by placing downside pressure on the dollar. The last of week of June saw gold prices fall to four-week low in the range of US$1,585 per troy ounce earlier in the week with European finance officials working on critical measures to ease financial pressure on Spain and Italy while the market felt that it was unlikely that additional stimulus will result from that week's European summit in Brussels. On the other hand, the price of nickel started the month on an upward trend reaching the high of US$17 087 per tonne before it declined to close the month at a price of US$16 685 per tonne. The high prices for Nickel are likely to have influenced developments at Bindura Nickel Corporation (BNC), where the shareholders have agreed on the need to recapitalize and take different initiatives that might see the operations at the mine starting.

Table 1. International Commodity Prices in June 2012

	Gold	Platinum	Copper	Nickel	Brent Crude Oil
	US$/oz	US$/oz	US$/tonne	US$/tonne	US$/barrel
4-Jun-2012	1,579.2	1,401.5	7,367.5	16,130.0	98.4
7-Jun-2012	1,613.4	1,463.5	7,488.5	16,417.5	101.3
13-Jun-2012	1,616.1	1,466.0	7,386.5	17,087.5	97.3
20-Jun-2012	1,609.9	1,470.3	7,582.5	16,947.5	95.0
27-Jun-2012	1,570.3	1,408.5	7,434.5	16,222.5	93.7
29-Jun-2012	1,584.0	1,417.5	7,679.5	16,685.0	95.5

Source: Bloomberg and Reuters

Platinum opened June at US$1,396, a price that proved to be the low point for the month. There was limited activity in the market during the extended Diamond jubilee holiday in the UK. However, the price appreciated modestly on the back of a cut in Chinese interest rates and a successful Spanish bond auction. News that Eastern Platinum is putting on the development of its eastern limb assets on hold provided a reminder to the markets that South African producers continue to struggle with low rand basket prices, which often makes capital expenditure unsustainable. Platinum continued to give up its recent gains as precious metals came under pressure once again in the wake of the US Federal Reserve's continuing reluctance to consider a further round of quantitative easing.

Maize and wheat recorded increases of 18.4 percent and 12.4 percent, respectively in the month of June 2012. This has been largely attributed to overly hot and dry weather conditions in the Northern Hemisphere, particularly in US maize and wheat in the Black Sea region and deterioration in crop expectations in Russia. Wheat yields are expected to decline by 4.3 percent to 665 million tonnes while maize yield will increase by 4.8 percent to 1,203 million tonnes on a year on year basis. The decline in wheat production has pushed prices up ahead of an anticipated decline in supply. This upward price trend is anticipated to continue as world wheat consumption is expected to outperform output. Locally, the demand for maize is expected to increase. Maize production for 2011-2012 season is estimated at 968,041 metric tons from a total planted area of 1.7 million hectares. The 2011-2012 maize production projection is about 33 percent less than the 2010-2011 season production level.

Table 2. International Grain Prices in June 2012

Date	Maize (USA), Fob, Gulf	Wheat HRW (USA) Fob, Gulf
	US$/tonne	US$/tonne
4-Jun-2012	245	282
11-Jun-2012	260	279
17-Jun-2012	270	280
21-Jun-2012	263	290
27-Jun-2012	283	315
29-Jun-2012	290	317

Source: International Grain Council

The crop assessment report has cited that about 967,229 hectares of planted maize has been written off due to unfavourable weather conditions. This, however, means more maize will be imported, thus contributing to the further widening of the current account deficit.

2. MACROECONOMIC DEVELOPMENTS

2.1 Overview of the Economy

Progress towards the achievement of Medium Term Plan (MTP) and 2012 Budget targets have been stalled by the binding fiscal space constraints which have undermined the effective implementation of priority projects. The main factors undermining the achievement of the growth target include liquidity constraints, underperformance of the agricultural sector and persistent electricity outages, among other factors.

In the Mid-Term Fiscal Review of the 2012 National Budget that was announced on the 18th of July 2012, Government revised the 2012 real GDP growth rate from 9.4 percent to 5.6 percent. The downward revision was necessitated by the underperformance of the following sectors: Agriculture, and Distribution, Hotels and Restaurants. The Agricultural sector growth target was revised from an initial 11.6 percent to 5.8 percent, while the Distribution, Hotels and Restaurants sector growth target was revised from 13.7 percent to 10.4 percent. Mining is the only sector's projected growth which has been revised upwards from 15.9 percent to 16.7 percent in 2012, mainly driven by buoyant mineral prices. The growth rates of key sectors like manufacturing and transport and communication are projected to remain static at 6 percent.

Government also revised the initial 2012 Government revenues from US$4 billion to US$3.8 billion. On the external sector, Government revised the initial projection of exports from US$5.2 billion to US$5.1 billion, while imports were revised from US$6.8 billion to US$8.2 billion. The levels of total banking sector deposits, which are net of inter-bank deposits was revised from US$4.3 billion to US$3.9 billion which implies that credit constraints that are currently curtailing industrial recovery are likely to worsen.

The revisions suggest that the economy is still constrained and therefore has limited capacity to achieve the previously set growth targets. Some of the constraints highlighted in the policy review statement include a poor rain season; policy inconsistencies; lack of capital; liquidity constraints; Government revenue underperformance against an unsustainable wage bill; slow pace of economic reforms; limited implementation and monitoring capacity; and volatile global economic environment, among other factors.

2.2 Agriculture Sector Developments

Tobacco Selling Season

The month of June saw the cumulative total sales increase by 6.7 percent from 121 million kilogrammes to 129 million kilogrammes (see Table 3). The value of the tobacco sold, increased by 45% from US$331 million in 2011 to US$479 million in 2012. This increase in value is an indication of an improvement in the quality of tobacco brought to the market as farmers gain more experience in tobacco farming and handling.

Table 3. Tobacco Deliveries by 2 July 2012

Tobacco Sales Floors	Bales Laid	Bales Sold	Rejected Bales	Mass Sold (kg)	Value (US$)	Average Price US$/kg
TSF	248,317	225,706	22,611	16,727,924	60,597,080	3.6
BTF	224,648	208,340	16,305	14,802,268	52,021,506	3.5
MTF	127,975	118,291	9,684	8,644,699	31,077,783	3.6
PTF	139,976	126,024	13,952	9,202,321	33,219,805	3.6
CONTRACT	907,777	880,823	13,952	79,700,900	257,649,208	3.8
Total 2012	**1,648,690**	**1,559,184**	**73,201**	**129,078,112**	**478,721,360**	**3.7**

Source: Tobacco Industry Marketing Board (TIMB), 5 July 2012

TSF-Tobacco Sales Floor; BTF-Boka Tobacco Floor; MTF-Millennium Tobacco Floor; PTF-Premier Tobacco Floor

Cotton Marketing Season

The marketing of cotton has been marred by disagreements between farmers and ginners on the price, with the latter offering prices ranging between US$ 0.30 and US$ 0.35 per kilogram, yet farmers wanted something between US$0.75 cents and US$1.20 for a kilogram. Government had to intervene after the stalemate that has seen cotton farmers holding onto their crop, refusing to sell in protest over low prices ginners and merchants were offering. The Government rejected the notion of international prices used by ginners and contractors which do not allow farmers to break even after marketing. Through Statutory Instrument SI106A of 2012, The Government seeks to make the cotton crop for the 2011/12 season a controlled commodity, effectively giving the State the power to fix the price. Under the SI106A of 2012, buyers will be required to buy the crop at a price fixed by the Government. The instrument is, however, not yet in force.

2.3 Mining Sector Developments

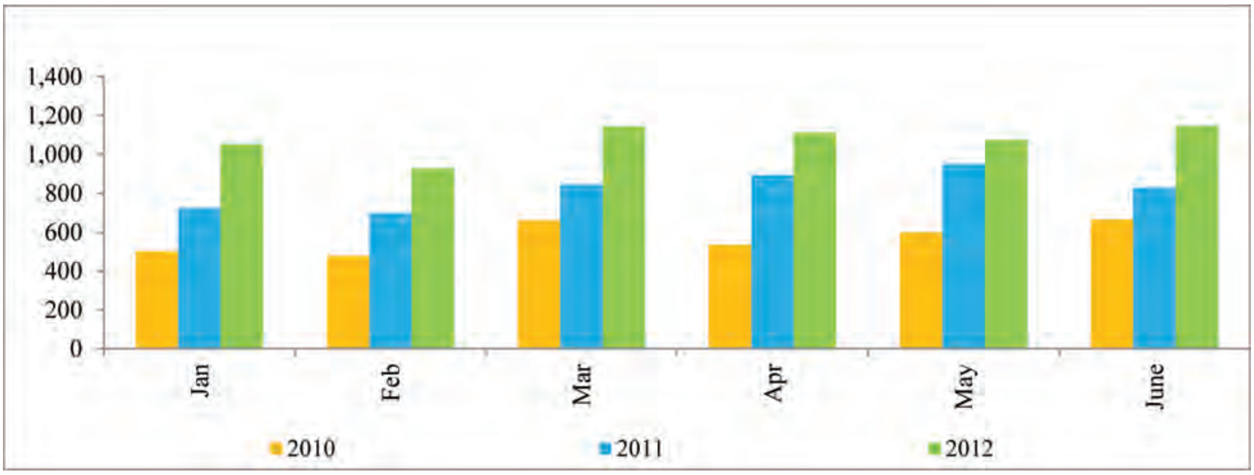
Bindura Nickel Corporation (BNC) announced that it plans to raise US$21 million through a rights offer to enable it to restart operations at its Trojan Nickel mine which was put on care and maintenance in late 2008. The proposal to pay off BNC creditors by issuing about 700 million shares through a private placement will result in a 25percent dilution in the current shareholding. However, this will help the company to reduce its debt burden and put more focus in restarting operations. Hwange Colliery Company is also in a process of recapitalizing its operations; it requires more than US$175 million to replace old machinery and equipment in order to boost its coal production.

On 19 June 2012 Freda Rebecca gold mine received an International Standards Organization (ISO 14001) certification and the standard for occupational health and safety management systems (OHAS 18001). The ISO 14001 is an internationally accepted standard that provides a framework for environmental management, measurement, evaluation and auditing. The OHAS 18001 is a standard for occupational health and safety management systems and it aimed at assisting businesses to implement rigorous measures to promote a safe and healthy working environment.

Gold Deliveries

Gold deliveries reached 1,146.9 kgs in June 2012 from 1,076 kgs the previous month. Primary gold producers delivered 907.8 kgs and small-scale producers delivered 238.2 kgs. In the first half of the year, total gold deliveries grew at a monthly average rate of 45.7 per cent reaching a cumulative total of 6,461.4 kgs. However, this was 0.6 per cent lower than the forecasted target of 6, 500 kgs for the period.

Figure 1. Total Gold Deliveries (kgs)



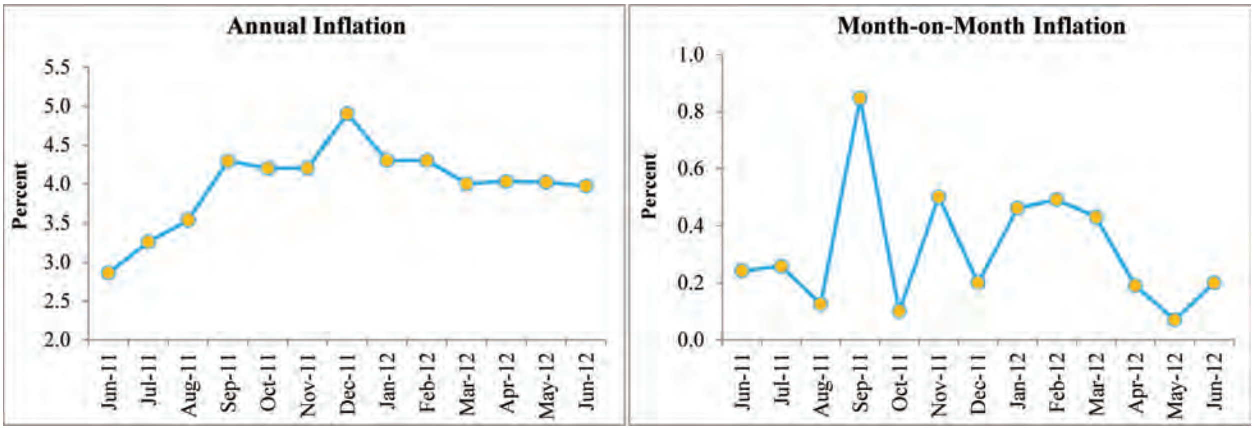
Source: Reserve Bank of Zimbabwe

Gold deliveries for the first half of 2012 grew by 30.7 percent from the comparable period in 2011. The improvement in gold delivery is as a result of firming of gold prices on the international market.

2.4 Inflation Developments

In June 2012 annual inflation reached just under 4 percent from 2.9 percent in June 2011. Annual food and non-food inflation reached 4.8 percent and 3.6 percent, respectively.

Figure 2. Inflation Developments



Source: ZIMSTAT

The major factors driving inflation in June 2012 were Housing, Water, Electricity, Gas and Other Fuels (inflation was recorded at 14.1 percent, driven mainly by rent and rates); Communication (12.3 percent); Education (11 percent); Alcoholic Beverages and Tobacco (6.2 percent) and Restaurants and Hotels (6.1 percent).

On a month-on-month basis, inflation increased from 0.07 percent in May 2012 to 0.20 percent in June 2012. Month-on-month food and non-food inflation stood at 0.3 percent and 0.2 percent, respectively. The main drivers of month-on-month inflation in June 2012 include Education (which went up by 4.5 percent); Housing, Water, Electricity, Gas and Other Fuels (which went up by 1.3 percent).

The prevailing inflation figures are within the targeted levels. Due to the poor harvest this year, food importation will likely increase. This may threaten the inflation target for 2012.

2.5 Interest Rate Developments

Commercial bank weighted average base lending rates increased marginally from 9 percent per annum in April 2012 to 9.4 percent per annum in May 2012 (Table 4). Over the same period, merchant bank weighted average base lending rates declined marginally from 15.7 percent per annum in April 2012 to 14.4 percent in May 2012.

Table 4. Interest Rate Levels (Annual Percentages)

Month	Commercial Bank Average Base Lending Rate	Commercial Bank Weighted Average Base Lending Rate	Merchant Bank Average Base Lending Rate	Merchant Bank Weighted Average Base Lending Rate	3-Month Deposit Rate	Savings Deposit Rate	Annual Inflation	Real Savings Rate
Jun-11	8.00-30.00	11.2	16.00-32.00	17.3	8.6	2.6	2.9	-0.3
Jul-11	8.00-30.00	11.0	16.00-32.00	18.2	8.6	2.6	3.3	-0.7
Aug-11	8.00-30.00	12.1	16.00-32.00	18.9	8.6	2.6	3.5	-0.9
Sep-11	8.00-30.00	12.6	16.00-32.00	19.6	8.6	2.6	4.3	-1.7
Oct-11	8.00-30.00	13.2	15.00-32.00	19.6	8.6	2.6	4.2	-1.6
Nov-11	8.00-30.00	13.2	10.00-32.00	19.6	8.3	2.6	4.2	-1.6
Dec-11	8.00-30.00	13.2	10.00-32.00	19.6	9.1	2.6	4.9	-2.3
Jan-12	8.00-30.00	13.2	10.00-32.00	19.6	9.1	2.6	4.3	-1.7
Feb-12	8.00-30.00	14.0	10.00-32.00	20.1	9.1	2.6	4.3	-1.7
Mar-12	8.00-30.00	10.6	14.00-35.00	18.8	10.1	6.0	4	2
Apr-12	8.00-30.00	9.0	13.00-25.00	15.7	10.1	6.0	4.3	2
May-12	6.00-30.00	9.4	15.00-30.00	14.4	10.1	6.0	4.0	2.0
Average	**…**	**11.9**	**…**	**18.8**	**9.1**	**3.5**	**4**	**-0.5**

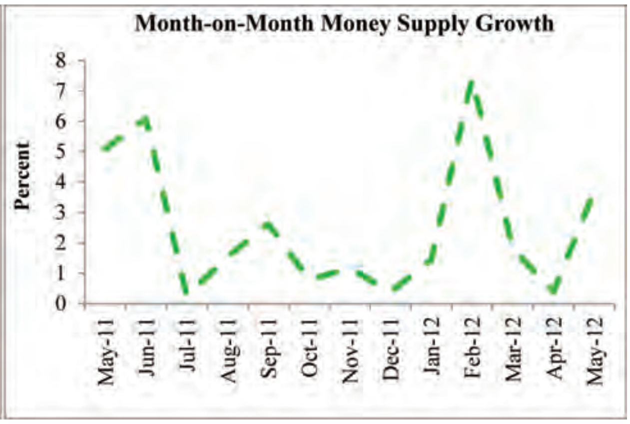
Source: Reserve Bank of Zimbabwe Monthly Economic Review

In May 2012, the 3-month deposit rates remained at the April 2012 level of 10.1 percent per annum. Average savings deposit rates also remained at the same level of 6.0 percent per annum. With the prevailing annual inflation rates, the real average savings rates have remained at 2 percent per annum in the last 3 months. There is still need to increase savings rates in order to attract more money into the formal banking sector.

2.6 Banking Sector and Monetary Developments

The growth in annual broad money (M3), defined as total banking sector deposits (net of inter-bank deposits), declined from 32.8 percent in April 2012 to 31 percent in May 2012 (Figure 3). On a month-on-month basis, M3 growth increased from 0.4 percent in April 2012 to 3.7 percent in May 2012. The increase in month-on-month M3 growth is favourable, given the liquidity constraints in the economy.

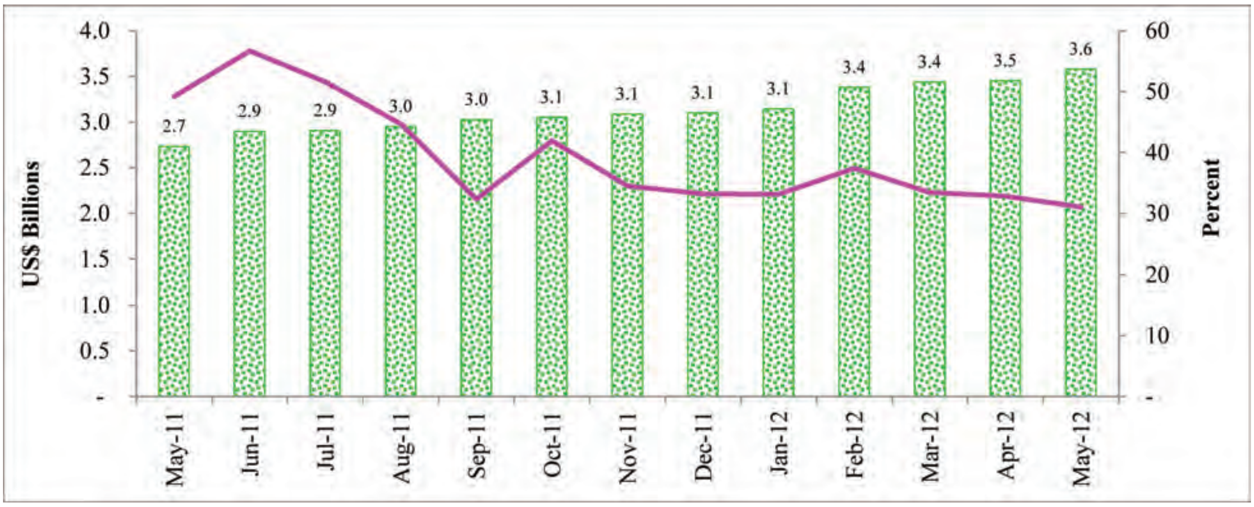
Figure 3. Monetary Developments (M3)



Source: Reserve Bank of Zimbabwe Monthly Economic Review

Total banking sector deposits increased from US$3.5 billion in April 2012 to US$3.6 billion in May 2012 (Figure 4). The growth rate in deposit is, however, sluggish. There is still need to enhance deposit mobilization into the formal banking sector.

Figure 4. Level & Growth Rate of Total Banking Sector Deposits



Source: Reserve Bank of Zimbabwe Monthly Economic Review

Long-term deposits increased from US$0.47 billion in April 2012 to US$0.52 billion in May 2012 (Table 5). The increase in long-term deposits is favourable, given the demand for long-term funding in the economy.

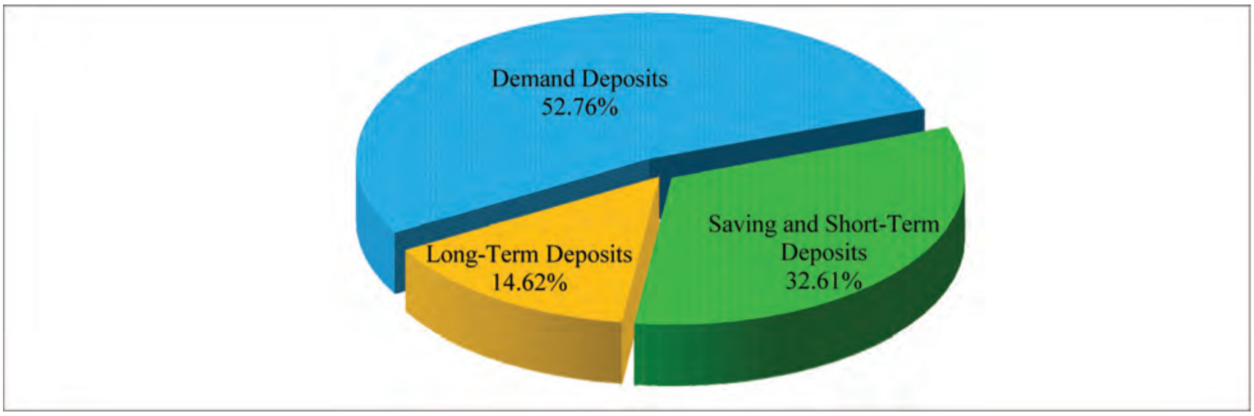
In May 2012, the composition of total banking sector deposits was dominated by demand deposits (52.8 percent) followed by saving and short-term deposits (32.6 percent) and long-term deposits (14.6 percent) (Figure 5).

Table 5. Total Banking Sector Deposits (US$ Billion)

Type of Deposit	Mar-12	Apr-12	May-12	Monthly Increase (Absolute) US$ Billion	Monthly Increase (Percent)
Demand Deposits	1.93	1.92	1.89	-0.03	-1.75
Saving and Short-Term Deposits	0.98	1.06	1.17	0.11	10.37
Long-Term Deposits	0.53	0.47	0.52	0.05	10.65
Total Deposits	**3.44**	**3.45**	**3.58**	**0.13**	**3.66**

Source: Reserve Bank of Zimbabwe Monthly Economic Review

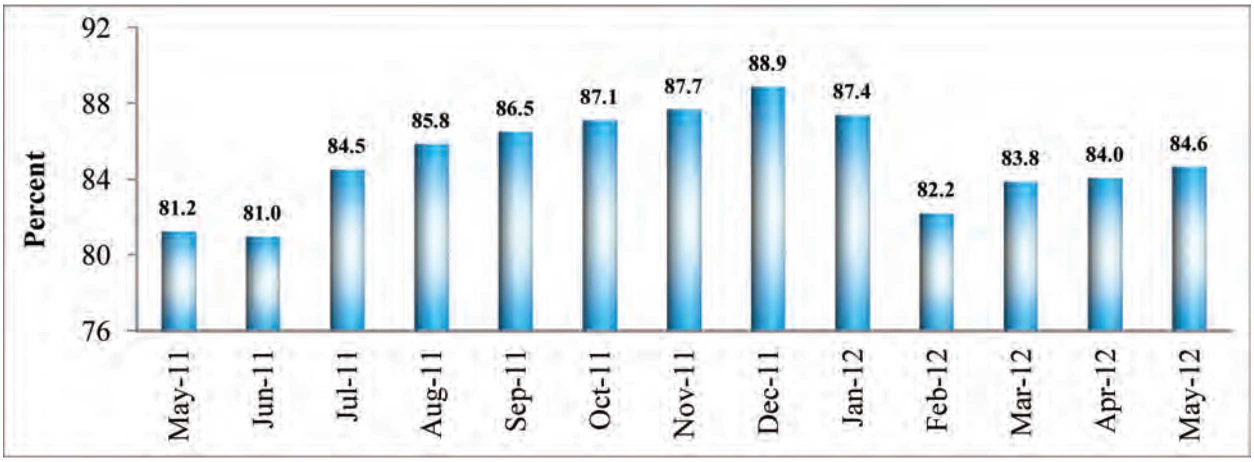
Figure 5. Composition of Total Banking Sector Deposits (Percent of Total Deposits) in May 2012



Source: Reserve Bank of Zimbabwe Monthly Economic Review

The loan-to-deposit ratio, calculated on the basis of total banking sector, increased marginally from 84 percent in April 2012 to 84.6 percent in May 2012 (Figure 6). However, using the aggregated deposits (but removing off-shore financing to reflect domestically mobilized loans) the loan-to-deposit ratio increased from 75.2 percent in April 2012 to 76.1 percent in May 2012. There is still a need to reduce the loan-to-deposit ratio, given the non-performing loans in some of the banks.

Figure 6. Loan-to-Deposit Ratio



Source: Reserve Bank of Zimbabwe Monthly Economic Review

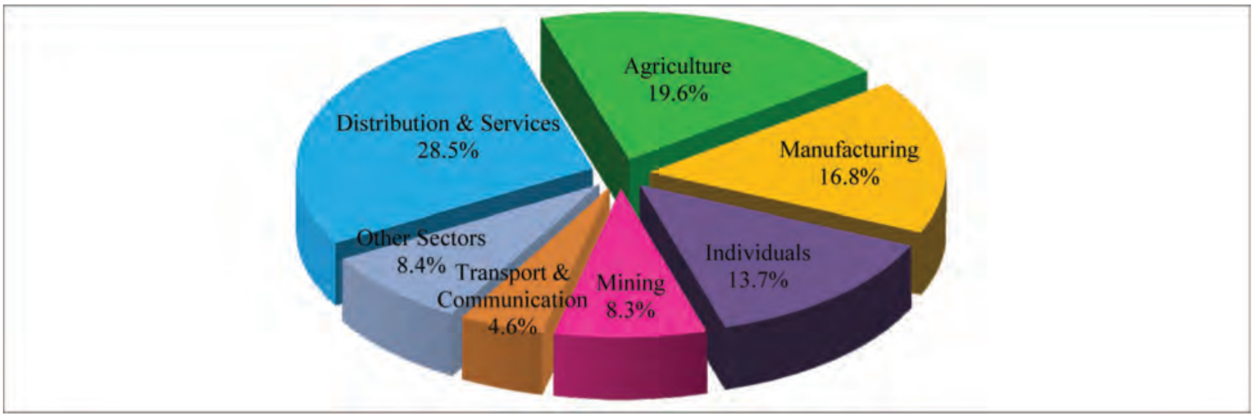
As of May 2012, bank credit to the private sector show an increasing appetite for loans and advances, as opposed to other investments. Loans and advances makes up 84.8 percent of bank credit to the private sector. The rest go to mortgages (7.3 percent), bankers acceptances (2.8 percent), bills discounted (2.5 percent) and other investments (2.6 percent).

As of May 2012, the sectoral distribution of bank loans and advances to the private sector was as follows: Agriculture (19.6 percent); Manufacturing (16.8 percent); Distribution (16.3 percent); Individuals (13.7 percent); Services (12.2 percent); Transport and Communication (3.7 percent); and, Other Sectors (9.4 percent) (Figure 7).

2.7 Financial Sector Developments

The Bankers Association of Zimbabwe (BAZ) is at an advanced stage towards the establishment of a Credit Bureau. The Bureau is expected to be operational by September 2012 and it is expected to reduce information asymmetry between lenders and borrowers, eliminate adverse selection, help lenders assess credit risk more accurately, lower the cost of credit to good borrowers, support automated underwriting, and lower operational costs of banks.

Figure 7. Sectoral Distribution of Banking Sector Loans and Advances in May 2012



Source: Reserve Bank of Zimbabwe Monthly Economic Review

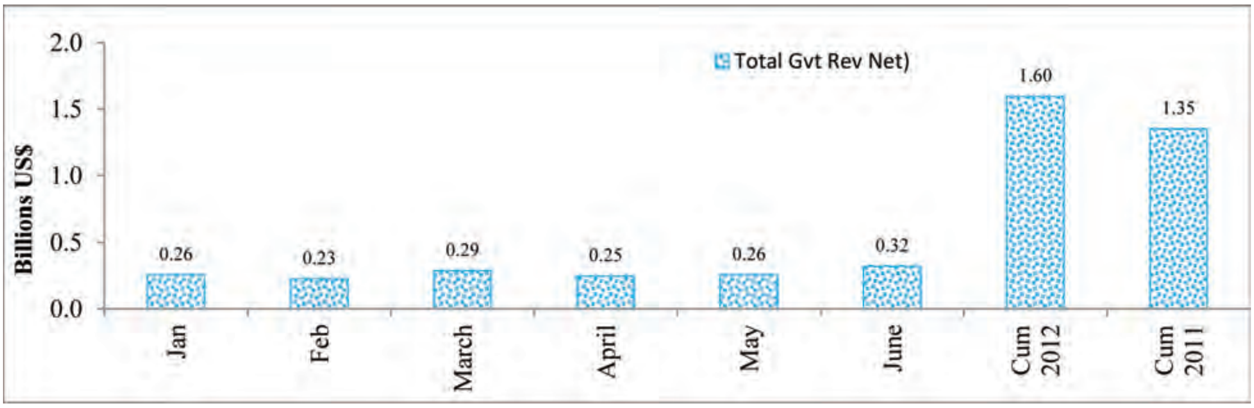
A draft National Code on Corporate Governance for Zimbabwe is yet to be finalized. The Code is expected to improve corporate governance in the financial sector. Many stakeholders believe that poor corporate governance is one of the main problems in Zimbabwe's financial sector problems. Improvements in the effectiveness of the legal system will also contribute positively towards good corporate governance practises.

On the 29 June 2012, the Ministry of Youth Development, Indigenisation and Empowerment gazetted a General Notice 280/2012 giving all foreign-owned financial institutions with a minimum net asset value prescribed by the Reserve Bank of Zimbabwe (RBZ) a maximum period of one year to cede at least 51 percent shareholding to indigenous Zimbabweans. However, according to the Ministry of Finance and the RBZ, the General Notice did not follow proper consultative channels. The lack of a clear position by the Government regarding the General Notice is likely to cause uncertainty in the financial sector.

2.8 Fiscal Performance

For the first six months of 2012, Government revenues amounted to US$1.6 billion, against a target of US$1.8 billion. Whilst other revenue heads have performed well, non-tax revenue continue to under-perform. Cumulatively, non-tax revenues to June 2012 were US$99,883 million against a target of US$337,597 million. The performance of the diamond sector remains key to the performance of non-tax revenues and meeting the projected total revenues for 2012. However, this notwithstanding, cumulative revenues for 2012 were 18.15 percent higher than the cumulative revenues for the same period in 2011, which stood at US$1.352 billion (Figure 8). The increase revenue can be attributed to improved economic activity in 2012.

Figure 8. Zimbabwe's Fiscal Developments



Source: Ministry of Finance, Zimbabwe

For the period to June 2012, cumulative Government expenditures amounted to US$1.6 billion against planned expenditures of US$1.8 billion. This is mainly due to fiscal space constraints, which limit the Government's capacity to spend. Overall, during the first half of the year the Government has managed to contain total spending to within the available resource envelop of US$1.6 billion, hence a surplus of US$22.5 million.

2.9 Tourism Sector Developments

The first quarter tourism performance report indicates that the tourism sector is on an upward trend. Tourist arrivals increased by 18 percent in the first quarter of 2012 as compared to the same period in 2011. Foreign tourist arrivals rose to 346,299 tourists, up from 294,198 tourists recorded in the same period in 2011. The majority of the arrivals were from Africa, which recorded 308,646 tourist followed by America which recorded 9,901 tourist. The majority of tourist arrivals (86 percent) travelled by road while 14 percent travelled by air. The hotel and lodges business also responded to the rising tourist arrivals.

2.10 External Sector Developments

During the month of May 2012, the country had a trade deficit even though it registered growth in in both exports and imports. Exports for the month grew from US$272 million in April to US$326 million. Total imports for the month reached US$525.6 million. The major export destinations were South Africa (US$259,165,293); United Arab Emirates (US$71,111,336); Mozambique (US$7,700,046); Zambia (US$7,666,269) and Belgium (US$5,947,071). On the other hand, for Zimbabwe, the country imports were from South Africa (US$236,449,502); United Kingdom (US$118,142,803); Zambia (US$43,446,687); China (US$20,964,069) and Mozambique (US$12,458,747).

Table 6. Imports and Exports in US$ Value

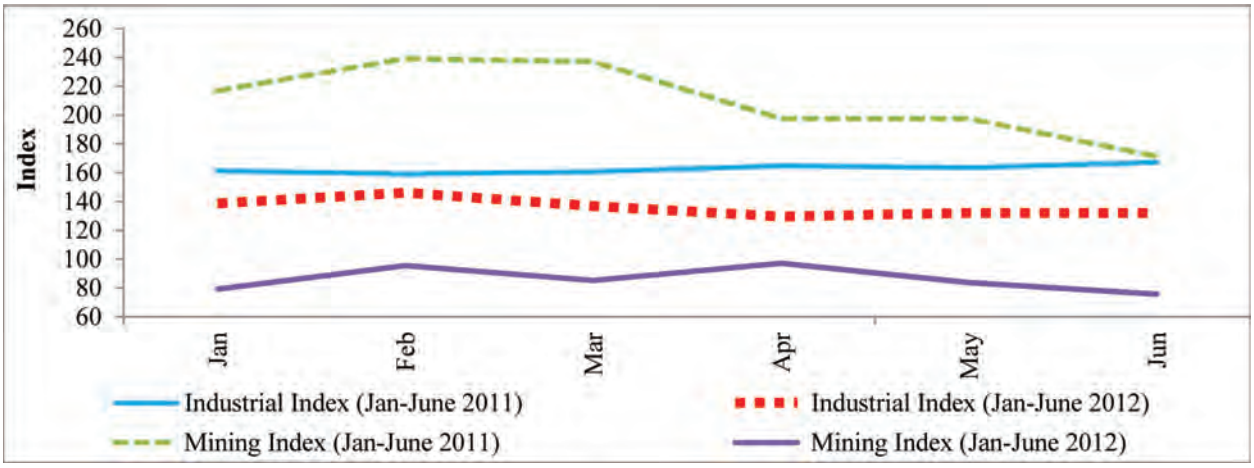
	Apr-12	May-12
Exports	272,053,370	326,117,683
Imports	482,997,091	525,590,950
Net Exports	(210,943,721)	(199,373,267)

Source: ZIMSTAT

3. STOCK MARKET DEVELOPMENTS

The Zimbabwe Stock Exchange (ZSE) traded in the red during the first half of 2012 compared to the same period in 2011 (Figure 9). The mining index took the biggest knock, declining from an average of 200 in 2011 to around 75 in 2012. The industrial index also performed poorly, averaging 120 compared to 160 during the same period last year.

Figure 9. Industrial and Mining Indices for Jan-June 2011 and Jan-June 2012



Source: Zimbabwe Stock Exchange

This sluggish ZSE performance has been due to liquidity challenges, low capacity utilisation, as well as high production costs arising from the use of out-dated methods of production and technology. The conflicting remarks on the implementation of the indigenization policy have also impacted the ZSE negatively through raising fears and prompting investors to be more bearish. Table 7 below summarises the performance of the ZSE for the period under review.

Table 7. Summary Statistics for the Zimbabwe Stock Exchange (Jan-June 2011 and Jan-June 2012)

Date	Jan-June 2011	Jan-June 2012	Percentage Change
Turnover Value (USD)	414,860,133	257,482,146	-37.9
Turnover Volume	3,901,296,362	2,249,287,871	-42.3
Foreign (Bought)	$179,203,230	$106,559,815	-40.5
Foreign (Sold)	125,206,144	$95,554,420	-23.7
Foreign No of Shares Bought	792,299,454	370,333,744	-53.3
Foreign No of Shares Sold	788,242,415	406,868,814	-48.4
Market Capitalization (USD)	$4,267,499,844	$3,341,457,429	-21.7

Source: Zimbabwe Stock Exchange

The ZSE performance has declined for the period January-June 2012 compared to the same period in 2011. The ZSE shed a total US$157 million in turnover value between January-June 2012 compared to the comparable period in 2011. The participation of foreign investors was dealt a blow, losing US$72 million dollars in the first six months of 2012 compared to the same period last year.

4. CORPORATE SECTOR DEVELOPMENTS

Following dollarization of the economy, the corporate sector was generally characterised by a sluggish recovery mode as many companies found the environment more conducive to business in comparison to the hyperinflationary era. However, not all sectors have been able to recover, with others actually faring much worse under dollarization. For example, the performance of the textile sector is still well below expectations with many companies actually exiting the industry. In June 2012, the country's sole manufacturer of knitting yarn, Karina (Pvt) Ltd, applied to the High Court for provisional liquidation. David Whitehead was put under judicial management in 2011. In February 2012, Continental Fashions, a textile giant which had been operating in Zimbabwe for more than 48 years, filed for bankruptcy after encountering massive cash flow problems. Other textile companies that have been placed under judicial management include Kalahari Clothing Company, Saybrook Manufacturers and Archer Clothing Company.

The major challenge that is forcing textile firms out of the market is failure to cope with import competition. The textile sector continues to play second fiddle to cheap imports from Asia, at a time when the firms are heavily undercapitalised. Protectionist measures that were introduced through various statutory instruments under the 2012 National Budget have failed to achieve the desired effects as local textile firms have failed to take advantage of protection due to undercapitalisation. To make matters worse, the downstream value chain is also plagued with problems; cotton farmers have been holding onto this year's crop demanding higher prices. The buyers, under the Cotton Ginners Association, were behaving in a monopsonistic tendency by teaming up to suppress the prices to levels that were not profitable to farmers. However, the intervention measures, which include making the Government the sole buyer of the crop through the Agricultural Marketing Authority (AMA) have also not helped much as the farmers still feel that the prices AMA is offering are still very low. As a result of the suppression of cotton prices, some farmers are believed to have shifted to tobacco production.

5. POLITICAL AND GOVERNANCE ISSUES

The Constitution Parliamentary Committee (COPAC) announced the finalisation of the draft constitution on Friday, 5 July 2012. The draft is now awaiting submission to the Global Political Agreement Principals. The final draft will be made public after the review by the GPA Principals. Following the Draft Review by the Principals, the Draft Constitutions will be presented and discussed by a broad spectrum of stakeholders during the "Second All Stakeholders' Conference", after which the draft will be subjected to a referendum, which will pave the way for the holding of elections.

6. OTHER TOPICAL ISSUES

6.1 Government Ratifies Diamond Policy

In June 2012 the Cabinet ratified the new diamond policy which seeks to regulate mining of precious stones while fostering transparency and accountability. The new policy will provide guidelines in the development of the diamond industry and the industry's contribution to the economy. The policy spells out the Government's position on the diamond sector, in line with international best practice such as the Kimberly Process Certification. The policy is aimed at protecting the diamond sector from threats of smuggling, fulfilling Zimbabwe's obligation to international conventions and the promotion of local beneficiation of Zimbabwean diamonds. The implementation strategy of the policy will be strengthened through the enactment of the Diamond Act (which will be administered by a Diamond Commissioner) and the establishment of the Diamond Board of Zimbabwe to regulate the industry.

6.2 Indigenization and Economic Empowerment

The Ministry of Youth Development, Indigenization and Economic Empowerment, in line with the Indigenisation and Economic Empowerment Act of 2007, issued a General Notice 280/2012 to firms operating in the Finance, Tourism, Education and Sport, Arts, Entertainment and Culture, Engineering and Construction, Energy, Services and Telecommunications industries giving them an ultimatum of one year to indigenise their ownership structures. The main focus of the notice has been the banking sector in which the Ministry has been directly compelling banks to comply with the Indigenisation Act. Out of the 26 banking institutions in the country seven are foreign owned and a few have indicated that they are in the process of complying with the regulation. The foreign banks have strong and health financial positions in relation to their local counterparts. This can be attributed to their foreign ownership structure that had allowed them to access and mobilize external loans easily riding on the credibility of their foreign shareholders. Forced restructuring of bank ownership structures is likely to further undermine confidence in the banking system and perhaps worsen the liquidity crisis in the economy. If not handled carefully, this policy can have dire and far reaching consequences on the economic recovery and development of the country. This may spark bank runs on the targeted banks. Given, the low confidence in the local banks, a run by the foreign owned banks may simply result in people shunning away from the banking sector or consider other creative strategies for keeping their savings. This would result in a fall in intermediation, thereby undermining the country's growth prospects.