STANBIC BANK ZIMBABWE

SUMMARY OF THE 2013 NATIONAL BUDGET

NOVEMBER 2012

Major Budget Issues	Comments	

1. Review of Economic Performance in 2012 and Outlook to 2013

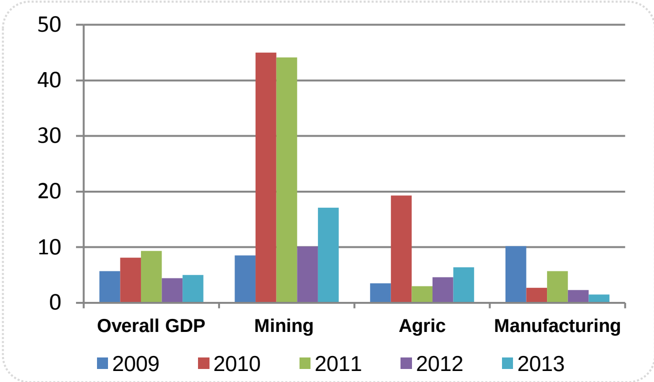
- The Ministry of Finance has further revised downwards the 2012 GDP growth rate to 4.4% from 5.6%. The initial projection was 9.4%.
- Major drivers of economic growth over the past 3 years include mining sector (contributing 45% of the growth) and a recovering agricultural sector (15%).
- Manufacturing capacity utilization has declined from 57.2% in 2011 to 44.5% in 2012. Major challenges include power outages, obsolete machinery, high cost of borrowing, and lack of long term funding.
- FDI flows remain constrained, with a mere $300 million projected for 2012 compared to regional averages of $1.5 bn/year.
- Mobile telephone mobile penetration rate increased from 12% in 2009 to 80% by Sept 2012.

Key Economic Indicators

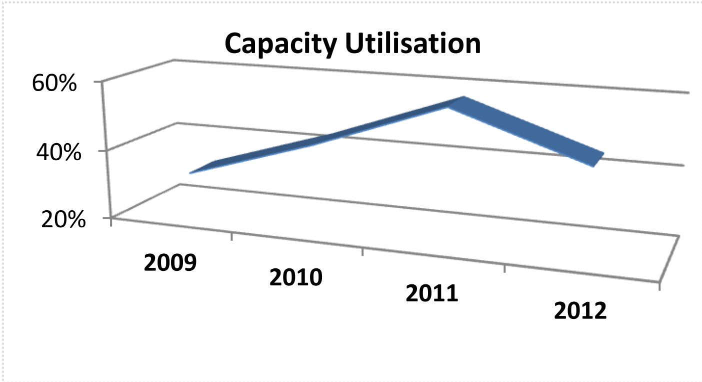
	2011	2012	2013
GDP %	9.3	4.4%	5%
GDP $bn	10.07	11.4	11.9
Inflation %	4.5	4.0%	5.0%

- The IMF also projects the economy to grow by 5% in 2012 and slow down to 4% in 2013 due to challenges including:
  - Failure to access funding from international capital markets,
  - Uncertainties created by the possible elections in 2013,
  - Constrained ability of Government to address key infrastructure issues such as power availability, water shortages and road network rehabilitation.
- Notwithstanding the proposed allocation of US$ 350 million towards capital projects in 2013, the amount required per year to fully rehabilitate key infrastructure is well over US$2 billion.
- Capital budget allocations are also likely to be sacrificed to compensate for any budget overruns.

Sectoral Growth Rates (%)



Industrial Capacity Utilization



Source: CZI, November 2012

Major Budget Issues	Comments	

2. Public Finance Performance

- Cash budgeting to continue.
- Gvt revenue collections stagnant
- 91.2% of expenditures towards recurrent expenses,
- Gvt wage bill currently averages US$120 m /month and is projected to rise marginally to US$ 126 million in 2013, thus implying increments of less than 5%.
- Diamond revenues are likely to remain depressed in 2013 due to low demand for Zimbabwe's diamonds,
- VAT remains the major contributor,
- Massive revenue leakages in the Customs department,
- Bonus tax free threshold increased from US$700 to US$1,000,effective 1 November 2012
- Total domestic arrears as at 31 October 2012 stood at US$260 million and thus threatening the cash budgeting framework.
- As at 30 September 2012, total development assistance aid amounted to US$651 million. Major contributors include United Kingdom (US$ 137.9 million), US (US$ 115.5 mil), China (US$37.7 mil) and Australia (US$ 36.6 mil).
- Multilateral institutions contributed

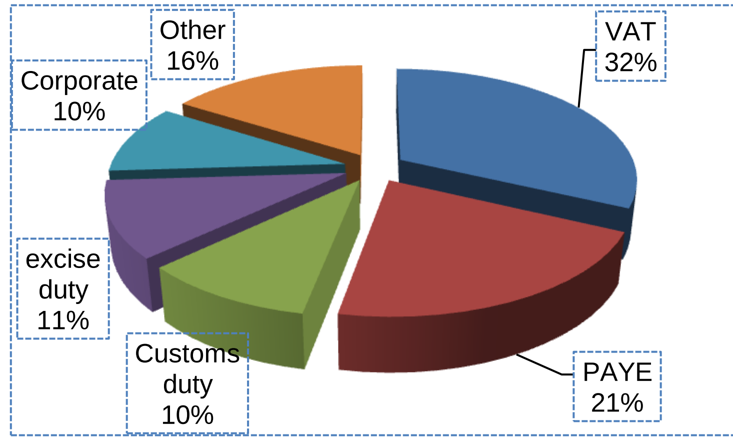
Budget Outturn : US$ million

	2011	2012	2013
Revenue	2,950	3,600	3,800
Expenditure	2,950	3,600	3,800
of Which			
Recurrent Expenditure	90.9%	91.2%	90%

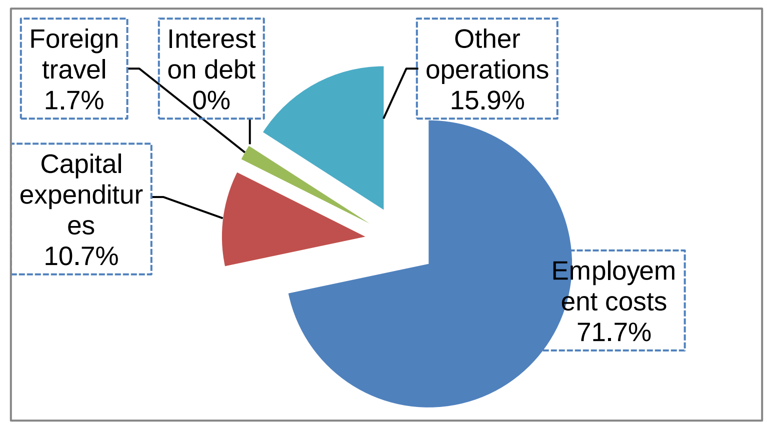
Revenue Enhancement measures

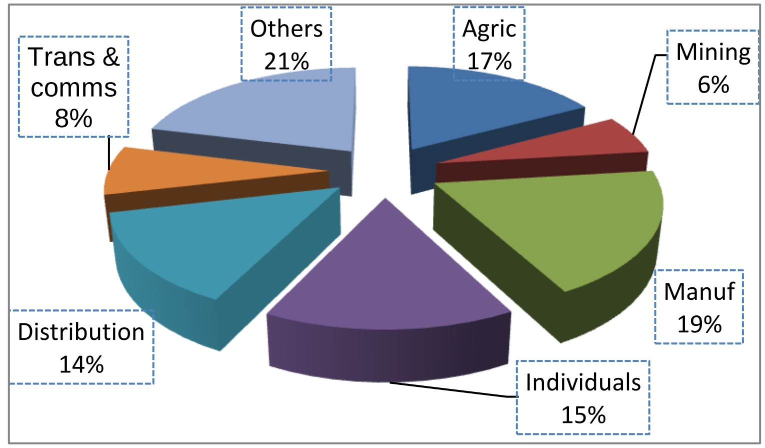
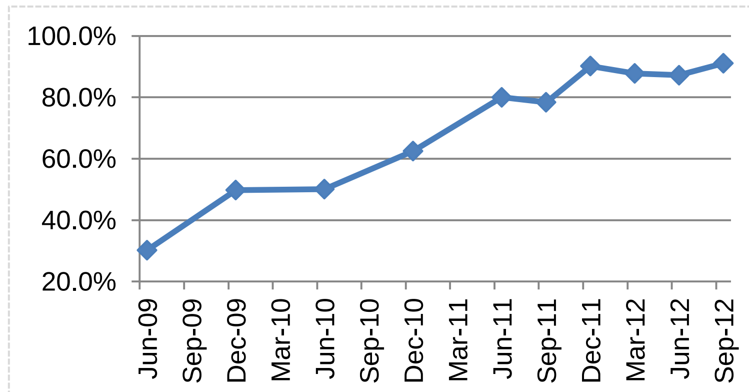
- Excise duty on alcohol and tobacco products has been increased effective 1 January 2013
- Other revenue measures include the on-going tax-reforms focusing on ZIMRA restructuring, compliance initiatives and increased automation of the tax collection system

Distribution of Government Revenues: % of Total



Distribution of Government Expenditures: % of total



Major Budget Issues	Comments	
US$ 212.5 million. Biggest contributors were Global Fund (US$ 191 mil) and World Bank (US$ 7.3 mil).		
3. Financial Sector Developments • Total bank deposits increased by 23.1% to US$3.73 billion by September 2012 up from US$ 3.029 billion in September 2011. • Total loans and advances stood at US$3.47 billion as at 31 September 2012 and thus giving unsustainable loans to deposit ratio of 91.1%. **<u>New Banking Sector Measures introduced</u>:** 1. **Bank charges** – no bank charges will be levied on deposits/salary amounts of less than $800 per month, 2. **Interest Rate Spreads** – the Minister compelled the BAZ and the RBZ to meet, negotiate and sign a memorandum of understanding (MOU) that will detail how lending rates and deposits rates are derived. The cap on the interest spreads should not exceed 10%. 3. **Non-performing loans** – average	• The rate of money supply is projected to remain sluggish in the outlook to March 2013 after which tobacco selling season will result in significant injection of inflows. • • Some of the measures implemented such as the waiving of bank charges (free banking) to certain customers could be viewed as highly unsustainable. The majority of banks' retail customers fall in this category and hence most banks will struggle to meet their operating costs.	**Distribution of Loans and Advances as at 30 September 2012**  *Source: Reserve Bank* **Loans to Deposits ratio Trend (%)**  *Source: Reserve Bank*

Major Budget Issues	Comments	
market NPLs have increased from 3% in January 2012 to 9% by September 2012. There are 8 banks which are facing serious NPL challenges. The banking sector is hence facing serious systemic risks.	• Constraints within the operating environment have rendered most companies unprofitable. The situation is further exacerbated by extremely high levels of cheap imports	
4. **Composition of Loans & Advances** – the Minister has highlighted the status quo whereby individuals constitute over 15% of total loans and advances issued out by banks as highly unsustainable. This is even higher than money advanced to the mining sector.	• Most individual clients are multi - borrowed through various banks due to the absence of a functional credit reference bureau.	
5. **Interest Rates on fixed deposits** – banks are compelled to pay a minimum of 4% on a fixed term deposits above $1,000 (i.e. deposits with tenor of over 30 days).		
6. **Establishment of Credit Bureau** – the Minister alluded to the advanced plans in setting up a credit bureau. However, he did not elaborate at what stage the process is currently.	• The establishment of a credit bureau is a long over due process. It will immensely assist in credit management systems and processes.	
7. **Promotion of electronic banking**		

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<tr><th>Major Budget Issues</th><th>Comments</th><th></th></tr>
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<td>platforms – the Minister encouraged banks to promote electronic banking platforms.

8. Lending of deposits from NSSA & Old Mutual – all the deposits coming NSSA & Old Mutual (i.e. internal generated money) should be on-lend to customers at no more than 10%.

9. Mortgages & Paid Up Permanent Shares (PUPS) schemes – the Government has re-established the tax-free PUPS schemes to encourage mortgage financing. Commercial banks have also been urged to participate and they are now allowed to participate in mortgage financing.</td>
<td>• Banks will have to invest heavily in IT infrastructure.

• The administering of the issue of on-lending NSSA and Old Mutual deposits is highly difficult as it is practically impossible to differentiate the source of a deposit, when on-lending to customers.</td>
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<td>4. External Sector Developments

<u>Exports Developments</u>
• Total exports to 31 October 2012 amounted to US$3.09 billion compared to US$ 2.86 billion over the same period in 2011.
• Mining exports accounted for over 64% of total export shipments,
• Platinum (45% of mineral exports), gold (24%), diamonds (14%) and ferrochrome (10%).
• Exports are estimated to grow by</td>
<td>BOP Summary : US$ million
<table>
<tr><th></th><th>2011</th><th>2012</th><th>2013</th></tr>
<tr><td>Exports US$m</td><td>4,490</td><td>5,089</td><td>5,540</td></tr>
<tr><td>% of GDP</td><td>44.0%</td><td>44.6%</td><td>46.5%</td></tr>
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<tr><td>Imports US$m</td><td>7,100</td><td>8,214</td><td>8,536</td></tr>
<tr><td>% of GDP</td><td>63.6%</td><td>72.0%</td><td>71.7%</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>Overall BOP position US$m</td><td>-789.7</td><td>-638.7</td><td>-224.6</td></tr>
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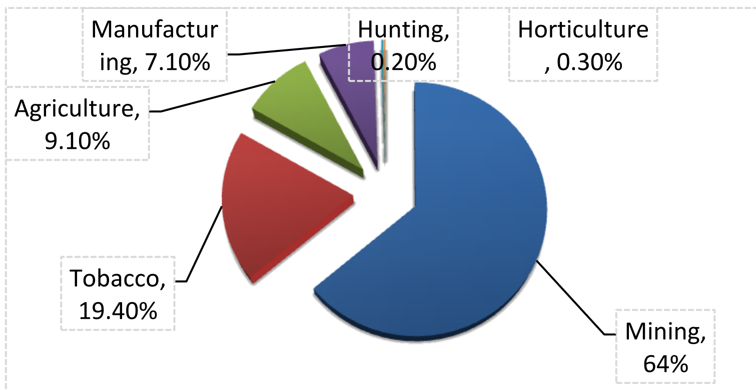
<td>Exports Distribution: January to October 2012


Source: Ministry of Finance</td>
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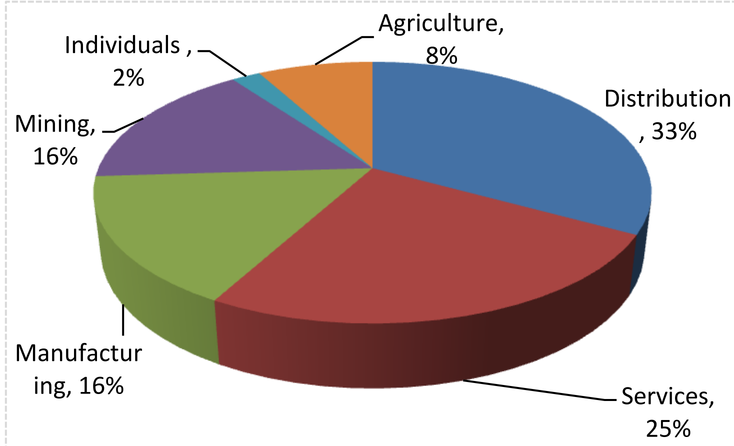
13.3% in 2012 and a further 8.9% in 2013 • Firming gold international prices of will improve current account deficit, **<u>Imports Developments</u>** • Total imports to 31 October 2012 amounted to US$ 6.5 bn compared to US$ 5.2 billion over the same period in 2011. • Imports are projected to increase by 12.6% to US$ 8 billion in 2012. **<u>External Debt Developments</u>** • The country's external debt is currently estimated ay US$ 11 billion and of which external arrears accounts for over 75% of the debt. • The Government is intending to fast track the debt rescheduling program.	• South Africa remained Zimbabwe's major trading partner contributing 52% of imports and 56% of exports. • Zimbabwe is still heavily dependent on export performance for sustainable economic growth. • The current Euro zone crisis and the tampered world economic growth could negatively impact on the country's growth prospects. • The resolution of the debt issue is critical towards the unlocking of potential external funding opportunities and investments inflows.	**Major Imports (US$ million):January - October 2012**  *Source: Ministry of Finance*
5.<u>Other Key Issues</u> **a) Referendum & Elections Matters –** the Minister has indicated that he was budgeting money for the hosting of the Constitutional Referendum and General elections in 2013. b) **Indigenization and Investment Promotion Laws–** the Minister	♦ The finalization of the constitutional making process is widely believed to be an important requirement for free-and-fair elections in Zimbabwe. ♦ Given the huge capital requirements needed to attain sustainable economic development, the Government needs to create a conducive environment that aids in	

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of Finance has indicated that the Ministry of Economic Planning & Investment Promotion and the Ministry of Indigenisation and Economic Empowerment are working on harmonizing the Investment Policies to enable the country to attract meaningful Foreign Direct Investments (FDI's).	attracting Foreign Direct Investments. Countries such as Zambia and Mozambique are receiving FDI's in excess of US$ 2 billion/year and they have managed to transform their economies. ♦ Failure by Government to speak consistently with one voice on key policy issues such as the indigenization policy is potentially damaging to the country's investment prospects.	