ZIMBABWE'S ECONOMY
IN THE FIRST QUARTER, 2013

Growing, but cautious excitement over the possibility that the country might soon start moving in a new direction under a new Constitution is beginning to capture the imagination of people at home and abroad.

Part of this hope comes from proposed changes that will restore to Parliament some of its lost powers, but perhaps more important hopes rest on beliefs that no matter what happens in the general election that will follow the Constitutional Referendum, extensive policy changes are a certainty because the failures of current policies are no longer the subject of debate.

In his Monetary Policy Statement, Reserve Bank Governor, Gideon Gono, reminds everyone that the economic challenges he identified in 2003, when he took office, are still very much in place. In his explanations for this poor performance, the Governor does acknowledge that, recently, "investment remained subdued on the back of the intensification of the indigenisation initiatives", but in his explanations for the lack of progress in the past decade, he chooses to place his emphasis on far less relevant issues.

International commodity price instability, the global economic slowdown, adverse weather conditions, the fact that the import bills are much bigger than export revenues, low liquidity levels, high interest rates and even sanctions get the blame. The underlying causes of the reversal of Zimbabwe's fortunes are not even mentioned.

The Governor's acknowledgements that the country's need to import most of its consumer goods and food, its need to qualify for new international loans, its need to recapitalise its banks, its need to generate employment and its need to regain the respect of international markets might be refreshingly blunt, but he avoids any discussion on what made all these needs so awfully big.

As in a ball of tangled string, a single thread runs through every knot and every twist: our choices in the shops are mostly from imported goods; the shops cannot find enough dependable local suppliers; imports will be needed until local producers can get back on their feet; restoring local production requires access to money that nobody wants to lend us, as well as supplies of electricity and water that often go off; bad Balance of Trade and Balance of Payments figures mean that investment in better power and water services is beyond the reach of central and local government; borrowing from abroad is impossible when debt arrears are already huge and current policies offer no prospect of an early improvement in foreign earnings; early improvements are not forthcoming from manufacturers or miners who cannot attract equity investment from abroad – because of indigenisation policies – and who cannot rely on electricity supplies; skilled commercial farmers could help replace most imports and increase export revenues by going back on the land, but they are prohibited from farming; the land confiscated from them has been stripped of its collateral value, so those to whom plots were allocated are merely subsisting, if they are farming at all.

So, unravelling this ball of twine leads back to the prime cause of the current debacle: Land Reform.

Of course, many still argue that Land Reform was also an effect, rather than a cause. This argument puts all the emphasis on the irrefutable fact that the colonial experience saw land occupation claims being made by unwelcome intruders, so Land Reform righted the original wrong.

Today, the realisation is that, unwelcome as the interlopers might have been, their arrival ushered in many changes that were very eagerly adopted.

They transformed the health and life-expectancy of the whole population by bringing an end to recurrent famines, tribal conflicts and epidemics of disease. They also introduced the population to education and a wide range of social developments that enriched their lives. Many of these features were brought in directly by farmers, but many more were in the form of helpful advances that the successful farmers helped make possible by ensuring the feasibility of investment opportunities in many other sectors, all of which led to increased employment, training opportunities and improving standards of living.

Every form of development, whether in roads and bridges, dams and power stations, schools and hospitals, mines and factories, banks and insurance companies, can be linked back to the success of the commercial farmers. And in the remarkable 20th Century, every one of these fields of endeavour went through remarkable, often profound changes, all of which generated opportunities that could be taken up in this country because of the eagerness of investors to invest in a country built on sound economic foundations.

The relatively developed country that gained independence of the colonials in 1980 was in no way comparable to the sparsely populated territory that was colonised in 1890. While many members of the colonial population had many shortcomings and certainly lacked the sensitivity that would have helped avert the many frictions that emerged later, they also achieved a great deal.

Post-independence mind-sets permit only the shortcomings to be used in evidence, but the population is now being made much more aware of the importance of the positive features. Regrettably, this awareness is growing mainly because these features have been so badly disabled that they now don’t work very well. Their former contributions are now sorely missed.

From being a colonial territory within which the colonial experience had been one of the best in 100 000 years of the human race’s colonial history, and which was the envy of almost every country in the entire Third World, Zimbabwe has been transformed into a backward, deeply indebted nation of people who are being asked to believe that empowerment is best achieved through forced ownership transfers of other people’s assets.

The complicated market mechanisms, financial relationships and property rights that used to keep the economy growing have been vandalised. The damage done is forcing our major assets, our bright and ambitious young people, to emigrate to other countries. If they can, they are choosing to move to countries that respect civil rights, the rights that are despised by many of our political leaders because respect for rights undermines political power.

But this is where changes in perceived prospects seem now to be making a difference. Under a different Constitution and with different politicians making more realistic promises, Zimbabwe’s future is beginning to look like it might soon become much better stocked with possibilities.

Meanwhile, the Reserve Bank Governor, while trying to avoid mentioning what really has to be fixed, has allowed his energies to be drawn into more closely managing the unpleasant symptoms of the imbalances affecting the banks. Some not specifically mentioned imbalances are simply the effects of the number of banks being too big for the amount of business on offer and too big for the amount of money in the system.

On top of these, too much of the money is on deposit in call accounts and this forces the banks to lend most of it for periods that are too short to support anything more adventurous than buying and selling.

The fact that there are too many banks stems from political decisions taken to ease the bank licensing procedures about twenty years ago. When this was followed by policy decisions to close the 4 500 companies that made up Zimbabwe's biggest business sector, its commercial farming sector, the politicians launched the process that wiped out more than half of Zimbabwe's economy.

Before this collapse, these companies had used the title deeds to highly marketable farmland as collateral for the loans that financed farming activity. Directly or indirectly, this helped to finance or otherwise support the country's most important export industries and a high proportion of all its other economic activities. Apart from supplying inputs to a wide range of Zimbabwean manufacturers, the farmers were also the main customers for the products of many other manufacturers. And they were the main users of services, particularly transport, construction, legal, banking and insurance.

The amount of money in the system then was sufficient to meet all domestic needs, while the dependability of the export revenues, plus a long history of meticulous attention to fulfilling debt service obligations, made Zimbabwe a very highly regarded trading partner. This reputation was quickly damaged by the authorities' display of disrespect for property rights, simply because this was followed so quickly by a collapse in export production volumes and the rapid erosion of the revenues needed to repay foreign debts.

In launching the measures that brought so many businesses to their knees, government soon found it was unable to collect the tax revenues needed to maintain the power and transport infrastructure. This soon led directly to the destruction of thousands of jobs and yet more losses in tax revenues.

With three times as many banks scrambling for less than half the business, banking instability became a certainty. As it happened, the older, more established banks did not have to do much of the scrambling, but all banks were soon caught up in the much more intense regulatory climate that the Reserve Bank felt obliged to impose on the entire financial services sector.

Rising inflation disguised the severity of these developments for a while, but when the profits taxes disappeared because of price controls, and when employment taxes fell as yet more jobs were swept out of existence, the Reserve Bank decided that increasing borrowings was the only answer.

However, to make its mounting domestic debts more affordable, government decided that interest rates should not be allowed to rise along with inflation. It set the interest rates at a fraction of the inflation rate and, by this means, granted itself permission to confiscate savings.

Before long, the savings had been so depleted that government could no longer fund its ministries. By forcing banks to buy Treasury Bills and by setting the Statutory Reserve Ratio at 60% of bank deposits, government drained the savings out of the system. When they were gone, the Reserve Bank had to take over the fiscal responsibilities of the Ministry of Finance. This it did by printing the money needed by every ministry to keep the public sector going.

The scene was set for hyperinflation, which soon arrived. However, the nation's corporate and personal savings were already history long before hyperinflation set in. The later arrival of the Z$100 000 000 000 000 note sounded the Zimbabwe dollar's death knell, but even this does not explain why so little money is to be found in Zimbabwe today.

After the adoption of the US dollar and the inevitable abandonment of exchange controls and price controls, Zimbabwe appeared to be well placed for dramatic improvements in manufacturing and commercial activity. Many manufacturers sought potential investors who could assist with refurbishment plans and many foreign investors arrived to consider development prospects for new businesses.

However, the early signs of strong inflows were arrested by the adoption of Statutory Instruments that gave teeth to the Indigenisation and Economic Empowerment Act. Risks of uncertainty were turned into guarantees of asset confiscations by Zimbabwe's indigenisation laws, so investors and lenders have been making only very modest commitments to Zimbabwe ever since.

This is one of the major constraints that stands in urgent need of the Governor's attention. However, his only comment on the subject is in Paragraph 8.38: "*All banks should observe the laws of the country including the Indigenization and Economic Empowerment laws. In this regard, the Reserve Bank is working together with the Ministry of Indigenization and Economic Empowerment to ensure that compliance with appropriate laws is done in an orderly manner."*

This statement from the Governor is of no assistance to existing investors and offers nothing to those who might still be contemplating future investments in banking, or in anything else. But the message that does come across is that those already involved in banking must face many more banking sector rules and regulations. They must meet higher capital adequacy requirements, charge lower fees and lower interest rates to borrowers and pay an acceptable rate of interest to depositors who are prepared to commit portions of their funds to term accounts.

These will add to banking costs and perhaps force those most seriously affected to reconsider their options with respect to mergers and take-overs. The changes are detailed in a Memorandum of Understanding between the banks and the Reserve Bank, which becomes effective on March 1st, and in a Banking Amendment Bill, which, it is hoped, will be passed by Parliament and implemented by March 31st this year.

Lost in all this administrative undergrowth is the fact that banking is in the service sector and it is struggling to perform its function, which is to serve other industries, most importantly those in the productive sectors. The entire sector needs more clients who can offer acceptable forms of collateral and can be trusted to repay loans. It also needs more money to lend them.

To attract this, each separate bank has to be able to see – and persuade others that it can see – good prospects of building up deposits, capital and reserves to meet demands, not just for 30-day money, but for medium-term and longer-term loans that they can offer at reasonable rates of interest.

But all these features call for the development of an investment environment that is very different from the one that is now directly interfering with Zimbabwe's prospects of economic recovery.

It is to that subject that the Reserve Bank and other authorities in Zimbabwe should be directing their attention. Instead, the Reserve Bank has remained engaged in time and energy-absorbing regulations that will serve only to further complicate the administration of the banks.

In the investment environment we do have, scarcity and risk factors are holding interest rates too high, but the policy changes needed to encourage flows of equity investment into the banks, or into any projects that would help modernise the rest of the economy's production facilities, are not mentioned in the Monetary Policy Statement.

The nearest approach it makes to the subject of investor confidence is in the form of a claim that respect for the sanctity of Bilateral Investment Protection and Promotion Agreements has been restored. "This positive development will undoubtedly enhance the country's appeal as a safe and prime investment destination in the sub-region", says the Governor.

Unfortunately, the so-called restoration-of-respect has taken the form of a decision to avoid adding to the already unpayable compensation debts accumulated from previous evictions of individuals "protected" by BIPPAs.

Even accepting a commitment to (eventually) compensate investors when a decision is taken to dispossess them of their investment amounts to evidence that the investor is being neither protected nor respected. The claim that the move "enhances the country's appeal as a safe and prime investment destination in the sub-region" will therefore be rejected outright.

With three of the banks, Barbican, Genesis and Royal, falling by the wayside, Zimbabwe is left with 22 banks, of which 14 were able to achieve the December 31 2012 capital threshold of $25 million. Five others were reported to have made significant progress towards compliance, two others, ZABG and Capital, had recapitalisation plans that were in "need of improvement" and the final bank, Interfin, remains in "recuperative curatorship".

To achieve their December 31 2012 $25 million capitalisation targets, the banks were expected to explore opportunities for mergers that were hoped would help reduce the number of banks, but none were arranged. Difficulties in funding retrenchment packages have proved insurmountable, but the egos of executives who have no intention of surrendering their status have also prevented progress in this direction.

All of the banks are supposed to achieve a minimum capitalisation level of $50 million by June 30, 2013. At present, only two, CBZ Bank and Standard Chartered Bank, are in a position to meet that requirement.

John Robertson
February 6 2013