TREASURY QUARTERLY BULLETIN

2018 FOURTH QUARTER

October – December, 2018

Ministry of Finance and Economic Development

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INTRODUCTION

1. The post-election period, and in particular, the last quarter of 2018, coincided with the launch of deep policy reforms under the New Dispensation, through the Transitional Stabilisation Programme (October 2018-December 2020).

2. The Transitional Stabilisation Programme (TSP), essentially, targets the following reform areas, that are key in providing a foundation for Strong, Shared and Sustainable growth and development:

   - Macro-fiscal stabilisation;
   - Building a conducive investment environment and launch respective quick-wins to stimulate and sustain a renewed private sector led growth economy;
   - Reintegrating the country into the global economy;
   - Promotion of sound and good governance as an essential ingredient for socio-economic cohesion and development.

3. Implementation of the TSP reforms in earnest started during the 4th quarter of 2018. Notwithstanding some setbacks from downside risks related to drought conditions of 2018/19, foreign currency shortages, restricted access to international financial markets, and other exogenous factors, there are indeed noticeable scores from the reforms.

4. Evident successes are in fiscal consolidation and discipline, removal of various pricing distortions, monetary sector and currency reforms, infrastructure rehabilitation, 'Doing Business Environment reforms" to attract investment, public

enterprises reforms, and governance, to mention a few areas. [Refer to Attached Annex 1]

5. As a result, growth, which could have declined by much higher margins, was saved and is now estimated at 4% for 2018 against an ambitious target of 4.5%. The anticipated growth was driven by agriculture, mining and services on the back of improved confidence and some investment in both private and public sectors during the first half of the year.

FISCAL PERFORMANCE

6. Following the onset in the implementation Macro-fiscal Stabilisation measures of the TSP which were further buttressed through the 2019 National Budget austerity measures, performance of public finances started improving with budget deficits being contained from October 2018.

7. By December 2018, a phenomenal budget surplus was recorded according to the preliminary budget outturn. This development was also against a background of improving revenue collections.

Revenue

8. Revenue collections during the fourth quarter of 2018 stood at US$1.69 billion, that way surpassing the set target of US$1.18 billion by 43.4%. This fourth quarter performance also represents a phenomenal 60% increase from the collections of US$1.06 billion recorded during the same period in 2017.

9. Similarly, fourth quarter revenues surpassed third quarter revenues of US$1.3 billion by 31.3%, reflecting high inflation impact, as well as the introduction of the Intermediated Money Transfer Tax (IMTT) in November.

10. The Table below shows 2018 fourth quarter revenue performance against targets.

Revenue (US$ millions): Oct – Dec, 2018

	Actual	Target	Variance (%)
Total Revenue	1 691.5	1 179.8	43.4
Tax Revenue	1 471.4	1 114.8	27.1
Non tax Revenue	274.1	65.0	321.7

Source: Ministry of Finance and Economic Development

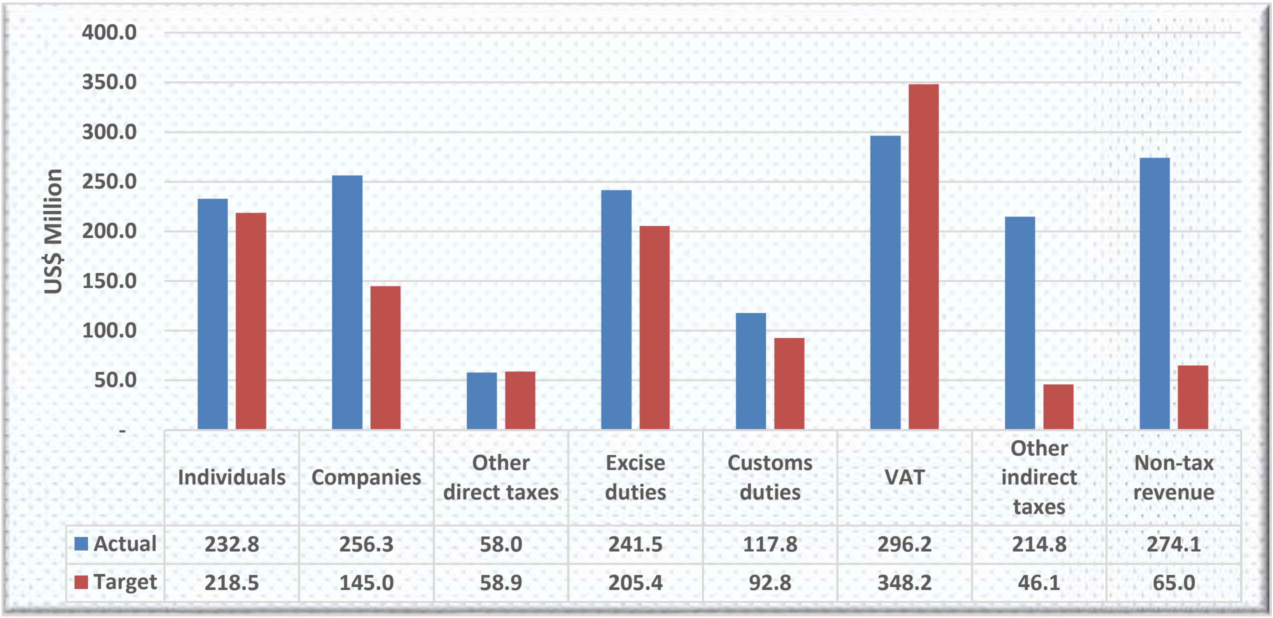
11. Tax Revenue and Non-tax Revenue recorded positive variances of 27.1% and 321.7%, respectively.

12. Non-tax revenue amounted to US$274.1 million, for the period October to December against a target of US$65 million, performing above the target by 321.7%.

Revenue Heads' Contribution

13. All revenue heads performed above the targets save for VAT, as indicated on the graph below, with non-tax revenue being the highest in surpassing the quarterly target.

2018 Fourth Quarter Revenue by Revenue Head: Actual vs Target



	Individuals	Companies	Other direct taxes	Excise duties	Customs duties	VAT	Other indirect taxes	Non-tax revenue
Actual	232.8	256.3	58.0	241.5	117.8	296.2	214.8	274.1
Target	218.5	145.0	58.9	205.4	92.8	348.2	46.1	65.0

Source: Ministry of Finance & Economic Development

14. VAT collections were lower than the third quarter collections by US$63.5 million. The underperformance of VAT collections was a result of reduced VAT collections on imported products, as well as higher VAT refunds during the quarter when compared to the preceding quarter's performance. VAT refunds were US$69.1 million in the third quarter, rising to US$142.4 million in the fourth quarter.

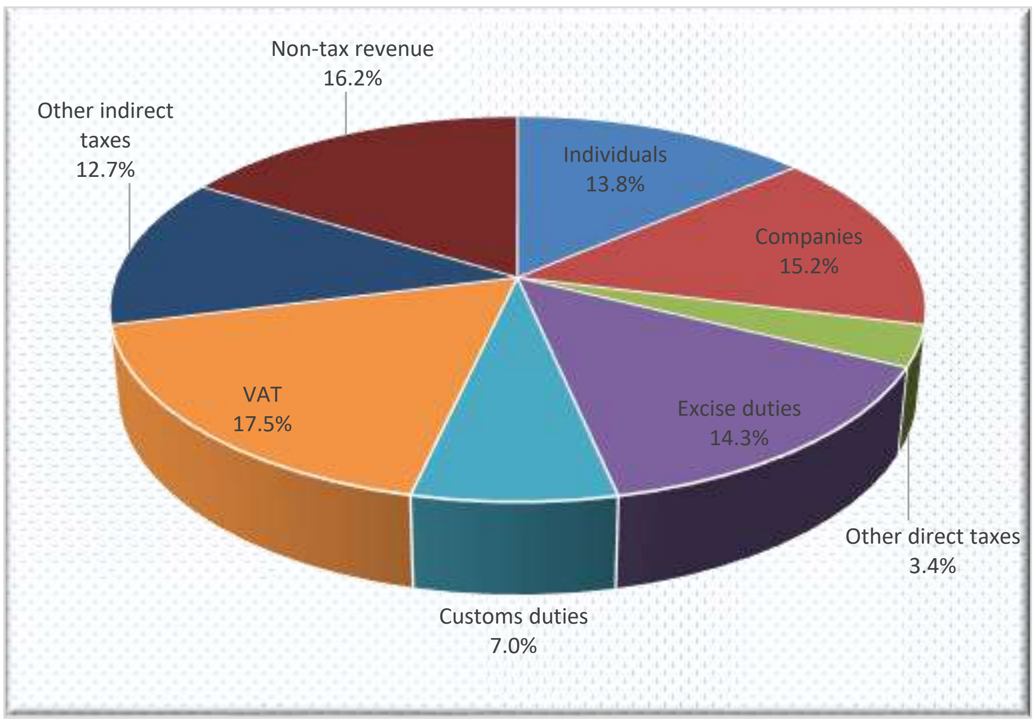
15. On the contrary, VAT on domestic goods performed above the target and also surpassed the third quarter collections.

16. Contribution of revenue heads to total revenue was almost equal without significant differences. The major contributors to revenue collections continued to be VAT, at 17.5% down from 27.9% contributed in the third quarter, followed by Non Tax revenue, 16.2%, Companies' tax, 15.2% and Excise duty, 14.3%.

17. Indirect taxes' contribution to total revenue was notable at 12.7%, mainly attributable to IMTT collections of US$166.8 million.

18. The Chart below summarises the contribution of individual revenue heads to total revenue.

Revenue Heads Contribution to Total Revenue



Source: Ministry of Finance & Economic Development

Expenditure

19. Preliminary, budget expenditures over the period under review amounted to US$1.4 billion, against the planned US$1.2 billion.

20. Resultantly, expenditure over-runs of about US$200 million were incurred, mainly due to over-expenditure on employment costs interest on debt and operations and maintenance.

Employment Costs

21. Employment costs for the fourth quarter to December 2018 amounted to US$1.1 billion, against a target of US$734.7 million, resulting in an expenditure overrun of US$361.3 million. The huge bill was mainly due to payment of annual bonuses in November 2018.

22. The lower expenditures were also a result of implementation of the new policy on 13th Cheque which is now equal to each employee's basic salary rather than gross salary. This gave savings of US$80 million.

Employment Costs: Oct - Dec 2018 (US$ Million)

	Actual	Target	% Variance
Total Employment Costs	**1,096.0**	**734.7**	-49.2
Civil Service	776.0	539.1	-44.0
Grant Aided Institutions	162.4	76.3	-112.9
Pension	157.6	119.4	-32.0

Source: Ministry of Finance & Economic Development

Operations and Maintenance

23. Operations and Maintenance costs amounted to US$277.6 million, against planned expenditures of US$256.0 million, resulting in an expenditure overrun of US$21.6 million.

24. The over-performance of operations and maintenance is mainly due to higher than anticipated expenditures on programmes and institutions, rentals and other service charges, institutional provisions and expenditures on communication.

Interest on Debt

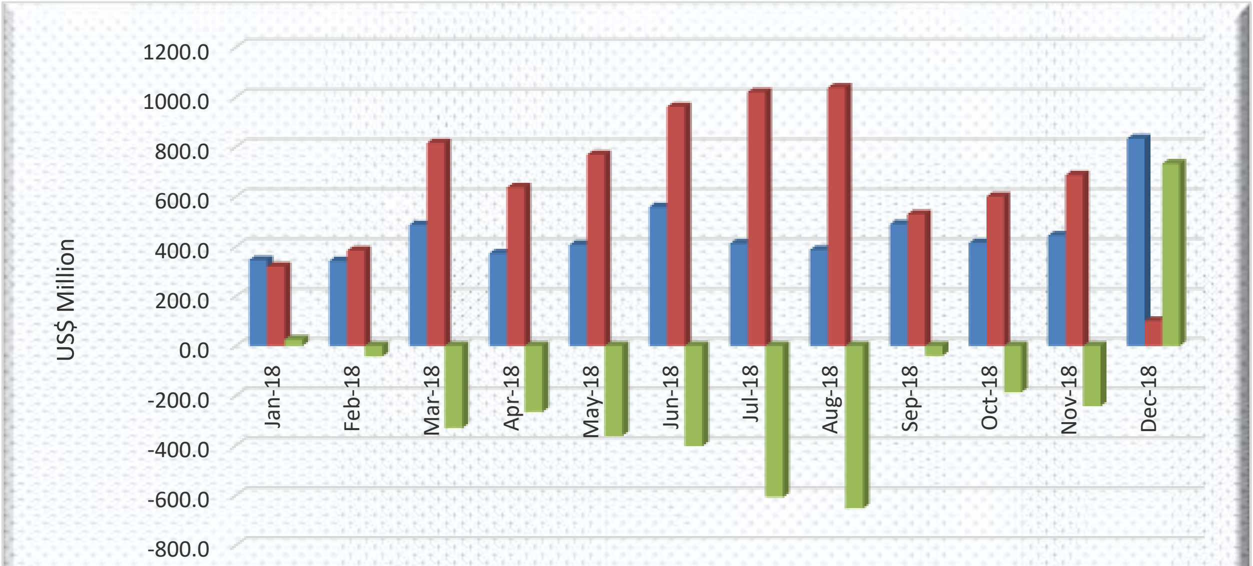
25. During the quarter, interest payments amounted to US$117.0 million, against a target of US$50.6 million. The whole amount was towards interest on domestic debt.

26. This indicates the structure of budget financing which was skewed towards short term domestic financing in the face of limited external financing and the inability of the country to service its external obligations.

Budget Balance

27. The budget balance for the period October to December 2018 was a surplus amounting to US$304.3 million, against a quarterly deficit target of US$28.3 million. The budget surplus reflects gradual reductions in deficits from September ending with a preliminary surplus of US$732.7 million by December 2018.

Budget Deficit: Jan – Dec 2018



	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18
Revenue	345.6	341.7	486.7	372.7	406.9	558.3	412.0	386.6	489.4	414.3	444.3	832.8
Expenditure	319.6	384.0	815.4	637.3	768.3	960.4	1018.8	1037.7	529.2	600.7	686.4	100.1
Budget Balance	26.0	-42.3	-328.6	-264.6	-361.4	-402.1	-606.8	-651.2	-39.8	-186.3	-242.1	732.7

Source: Ministry of Finance & Economic Development-Budgets

28. Consequently, the deficit for the year 2018 is estimated at US$2.4 billion.

Debt

29. Total public debt stood at US$17.8 billion at the end of the fourth quarter of 2018. Of this debt, domestic debt accounted for 54.1% at US$9.6 billion while external debt accounted for 45.9% at US$8.2 billion.

30. The huge domestic debt stock is mainly driven by Government debt incurred in the previous fiscal years, (US$3.7 billion), Central bank overdraft facility, (US$3.0 billion) and capitalisation of Public Enterprises, (US$1.4 billion).

31. Public Enterprises that were capitalised include institutions such as ZAMCO, Agribank, IDBZ, RBZ, P.O.S.B, Women's Bank, Empower Bank and ZCDC.

32. On the external debt front, bilateral creditors accounted for the huge part at 31.5% of the total external debt stock. In addition, external debt is mainly comprised of arrears at US$5.6 billion, which is 71.9% of the external debt.

33. Government continues to pursue the re-engagement process with the international creditors, with a view of resolving the external debt issue.

INFLATION DEVELOPMENTS

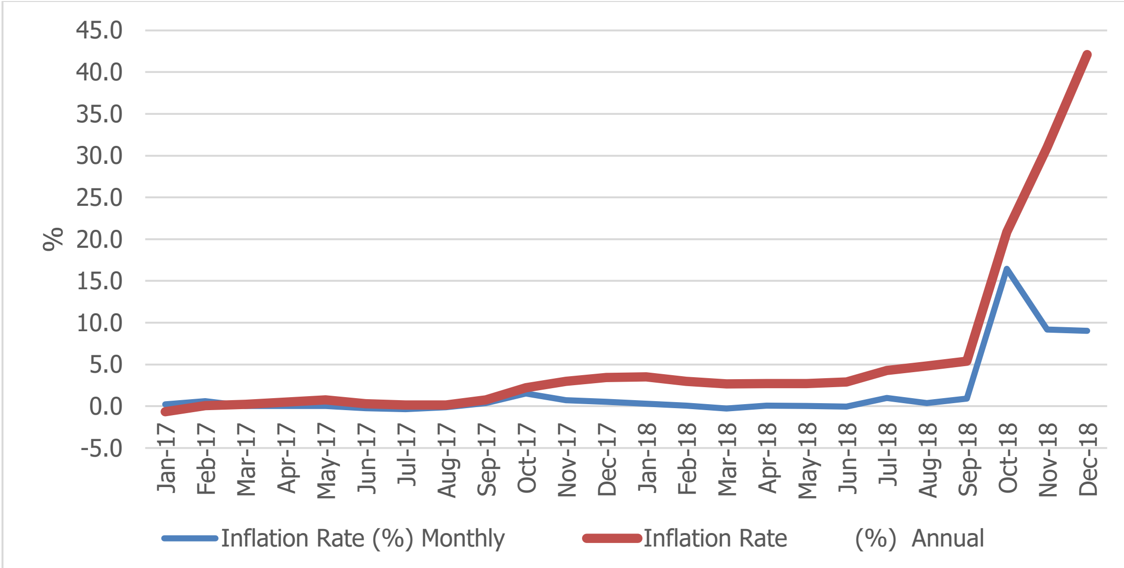
34. Annual inflation, which used to be contained within single digit levels, for first time since 2009, suddenly rose to 20.9% in October 2018 and maintained the rising trend in November to reach 42% by December 2018.

35. The surge in inflationary pressures during the quarter was driven mainly by unexpected widening parallel exchange rate premiums between the US dollar and the bond note, which in turn fuelled panic buying and dramatic price increases.

36. The sudden increase in inflation in October 2018 is expected to filter into 2019 inflation developments up to September 2019.

37. However, month on month inflation despite shooting to 16.4% in October 2018, slowed down to 9.2% and 9.0% in November and December, respectively.

2018 Inflation Profile



Source: ZIMSTAT

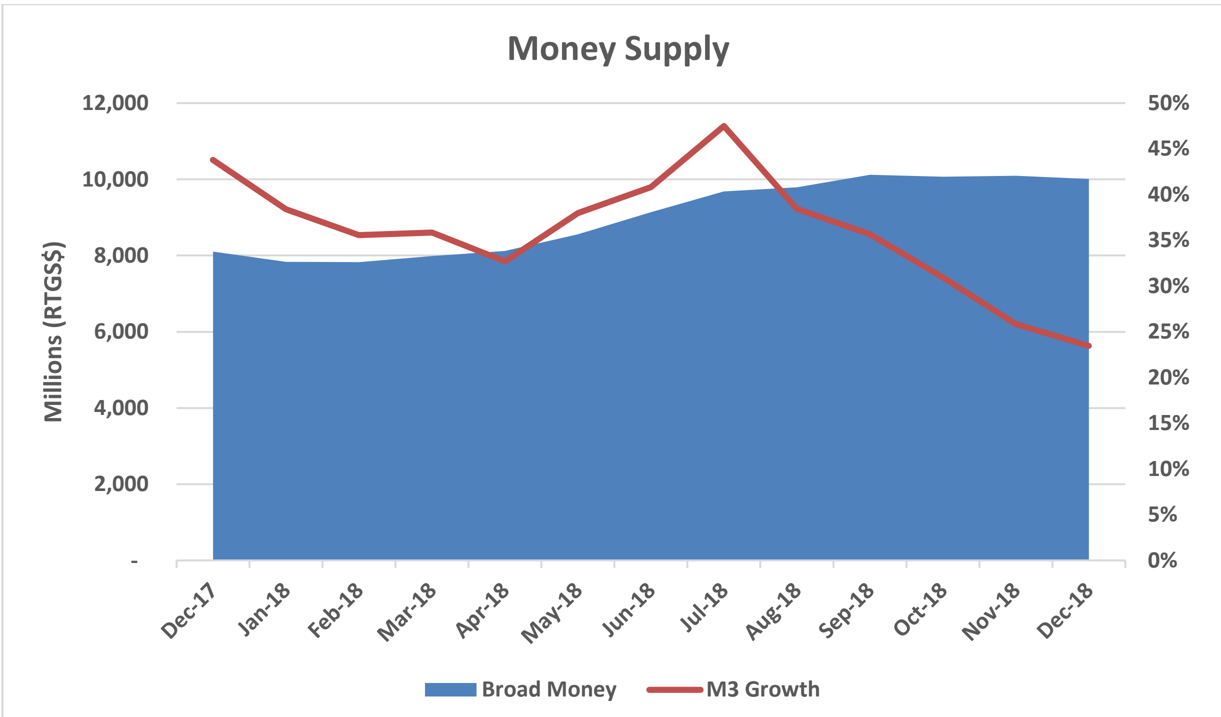
38. In the outlook, the month on month inflation is expected to further slowdown while year on year will remain relatively high due to the base effect and the tail effects of the pass through effects of the parallel exchange rate. Inflation dynamics are expected to be guided by foreign exchange developments, wage negotiations, and implementation of fiscal and monetary reforms.

FINANCIAL SECTOR DEVELOPMENTS

39. The last quarter of 2018 was characterised by speculative activities in the foreign exchange market. The speculation and uncertainty fed into inflation, when Bond Notes premium to the US$ at the parallel market was trading at a high of 600% before stabilising to between 350% - 400% after the market was assured that the Bond Note and US$ parity of 1:1 was going to be maintained.

Money Supply

40. The annual growth in money supply recorded an increase of 28.05% in December 2018 to US$10.00 billion down from 35.7% recorded in September 2018.



Source: Reserve Bank of Zimbabwe

41. The downward trend in money supply growth since August 2018, largely reflects slowdown in accommodation to Government, in line with the fiscal consolidation thrust, as well as Central Bank efforts to mop up excess liquidity from the market. This is expected to further anchor inflation expectations.

Loans and Advances

42. Total banking sector loans and advances increased by 5.04%, from US$4 billion as at 30 September 2018 to US$4.22 billion as at 31 December 2018. However, the

non-performing loans increased from 6.7% in September 2018 to 8.3% in December 2018.

43. The increase in NPLs is largely a reflection of forward looking credit risk management strategy adopted by banks in line with prudent accounting standards.

Zimbabwe Stock Exchange

44. The separation of Foreign Currency Accounts into FCA Nostro and FCA RTGS during the MPS in October 2018 resulted in an increased rally on the ZSE during the second week of October.

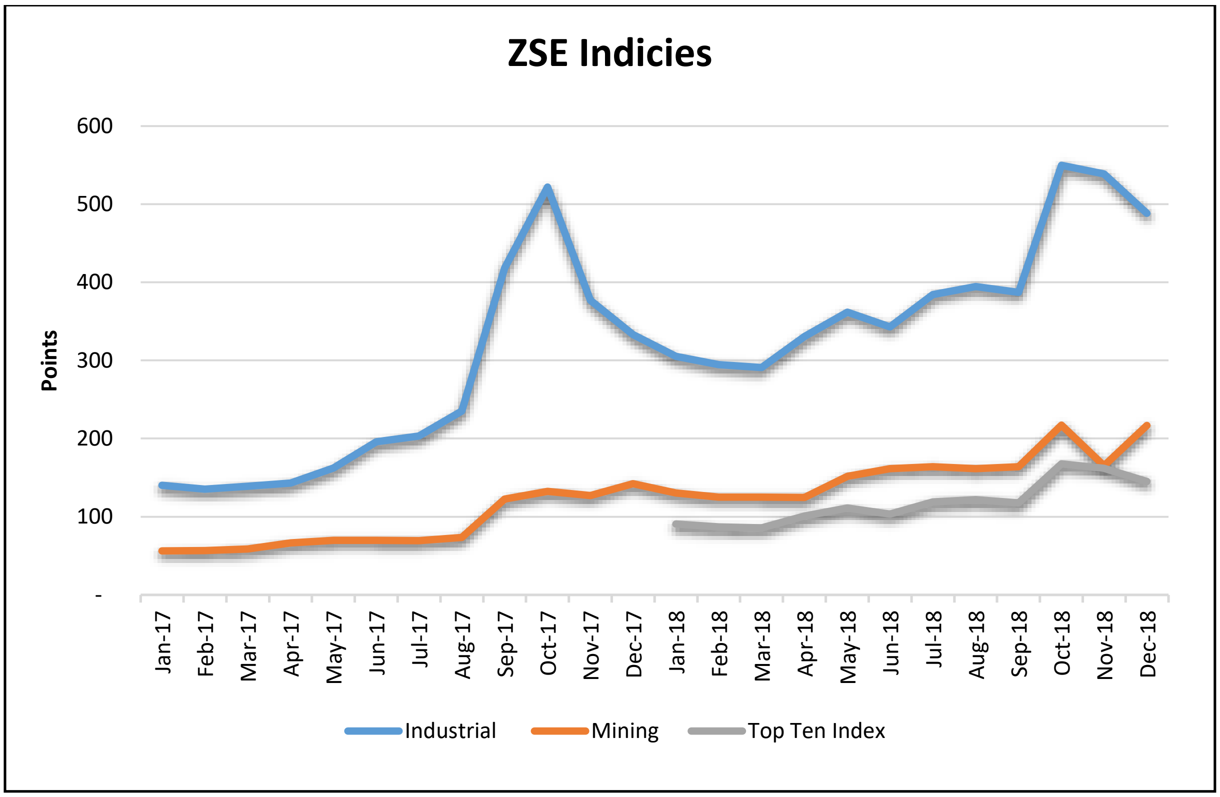
45. Investors were switching portfolios from the money market, which was now deemed risky, to the equities which became a safe haven as they were hedging against de-dollarization and inflationary expectations.

46. The Old Mutual Implied Rate (OMIR), which trends with the parallel market rate of foreign currency, was RTGS 2.446 to US dollar on 28 September 2018 at the close of the third quarter but rose by 265% to an all-time high of RTGS 8.9338 to US dollar on 12 October 2018 before easing to RTGS 5.1948 by 31 December 2018.

47. The industrial index opened the fourth quarter of 2018 at 386.97 points and gained 103.99 points (26.2%) to close the year 2018 at 488.24 points, while the mining index gained 52.78 points (31.4%) in the fourth quarter and closed year 2018 at 216.77 points.

48. The Top Ten Index increased by 26.18 points (23.3) opening the quarter at 117.6 and closing the year at 145.02 points.

49. Consequently, the market capitalisation of the ZSE increased by 58.2% from US$12.3 billion at the beginning of the quarter to US$19.3 billion in the month of December 2018.



SECTOR PERFOMANCE

Agriculture

50. The first half of the 2018/19 rainfall season, which stretches from October to December has been characterised by below normal rainfall that is less than 75% of the long term average for most parts of the country. However, small pockets of Mashonaland, Masvingo, Matabeleland South and Manicaland provinces received, on average, normal rainfall, ranging between 75% - 125%.

51. The late rains resulted in general late planting and wilting of some crops in some parts of the country, pointing to possible drought if significant rains are not received in the last half of the season. The situation is being monitored with a view of asserting anticipated yields.

52. The agriculture situation for the current season is being worsened by general price increases in most agriculture inputs such as seed, fertilizers and chemicals attributed to shortage of foreign currency and other economic dynamics.

Grain Crops

53. Production of grain crops under the 2018/19 agriculture season was anchored by the Special Agriculture Programme (Command Agriculture), Presidential Input Scheme in support of vulnerable farmers, contract farming and individual funding and initiatives.

54. Under the Special Agriculture Programme, 269 000 ha and 28 000 ha were contracted under maize and soya beans production, respectively, as at end of

December 2018. Of the above, 51 900 farmers were contracted for maize production while 1 700 farmers were contracted for soya beans.

55. Government also supported over 1.5 million vulnerable households with inputs adequate for 600 000 ha. Yields from this scheme under normal circumstances are estimated at 420 000 tonnes.

56. To complement Government efforts, the private sector contracted 17 296 ha for maize and 14 924 ha for soya bean. The balance of the anticipated grain will be produced through individual farmer efforts and details will contained in the upcoming First Crop & Livestock Assessment Report.

Tobacco

57. The number of new tobacco registered farmers went up 33% to 40 600 as at 31 December 2018 from 30 500 farmers registered during the same period previous year.

58. Consequently, area planted is estimated at 79 708 ha as at 27 December 2018 up from 74 238 ha recorded for the same period last year.

Tobacco Area Planted

	Area planted(ha) 2017/18			Area planted(ha) 2018/19		
	Irrigated	**Dry land**	Total	**Irrigated**	**Dry land**	**Total**
Mashonaland West	3,442	23,028	26,470	3,132	24,678	**27,810**
Mashonaland Central	4,186	13,872	18,058	4,567	17,875	**22,442**
Manicaland	1,658	13,845	15,503	2,254	15,421	**17,675**
Mashonaland East	5,953	8,138	14,091	6,854	4,832	**11,686**
Midlands	20	69	89	40	35	**75**
Masvingo	-	25	25	-	20	**20**
Matebeleland South	-	2	2	-	-	**-**
Total	**15,259**	**58,979**	**74,238**	**16,847**	**62,861**	**79,708**

Adopted from TIMB Weekly Report

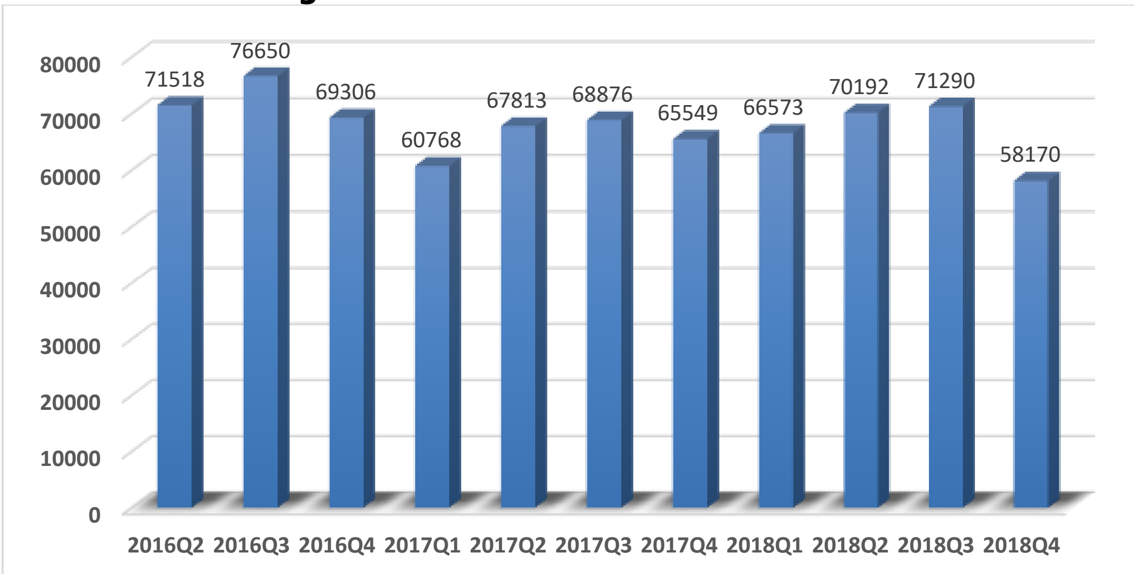
59. In view of the above, tobacco output is anticipated to be within the previous year's levels of 252 million kg.

Beef

60. During the fourth quarter of 2018, growth of the cattle herd was affected by drought conditions and disease outbreaks, which reduced the herd and also compromised quality of beef.

61. By December 2018, the cattle herd is estimated at about 5.4 million from 5.6 million of January 2018. As a result, formal cattle slaughters declined to all time low since 2016 to 58 170 in the last quarter of 2018. This is against 71 290 recorded during the third quarter of the same year.

Formal Cattle Slaughters



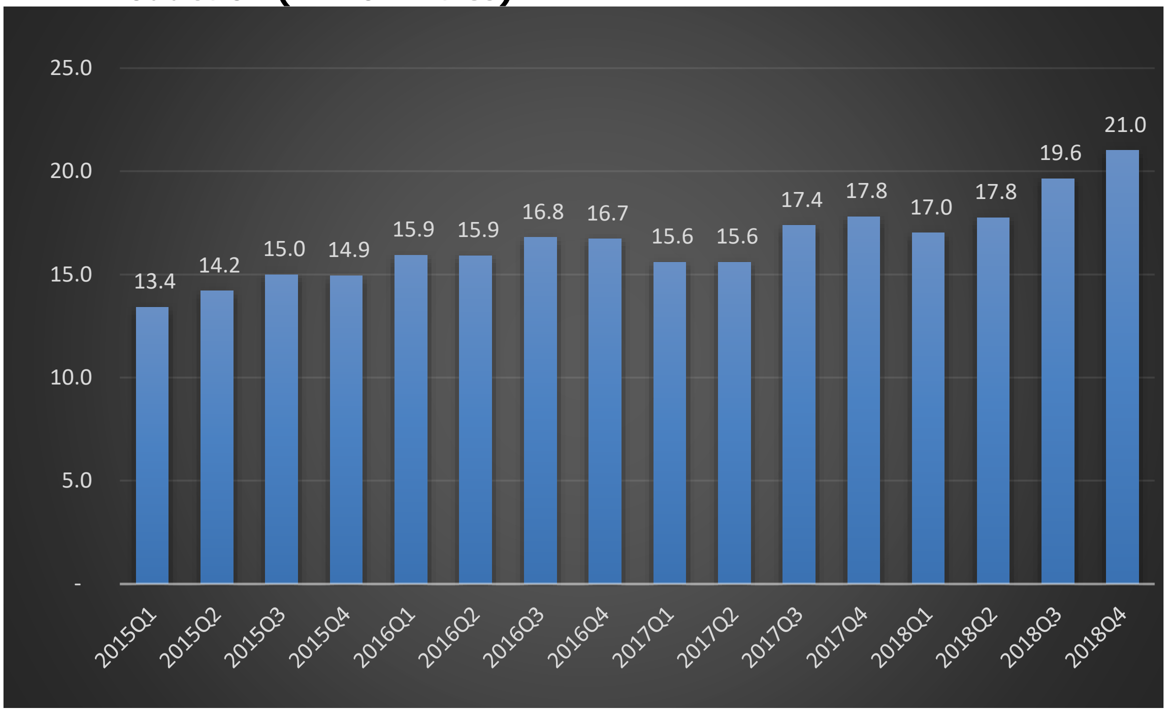
62. The contraction in beef production is also attributed to declining demand caused by the general price increases experienced during the quarter.

Milk Production

63. Milk production remain on a growth trajectory having increased by 7% to 21 million litres for the fourth quarter of 2018 up from 19.6 million litres recorded in the previous quarter.

64. On annual basis, formal total milk production for the year 2018 grew to 75 million litres up by 14% from 66 million litres recorded in 2017. This growth is above the annual growth target of 10% set in the Dairy Revitalisation Programme.

Milk Production (Million Litres)



65. However, the cost escalations and shortage of vaccines, owing to foreign currency challenges has a negative bearing on the growth of the industry.

Grain Stocks at GMB

66. Cumulative maize intake by GMB for the 2017/18 season stood at 1.1 million tons as at 18 December 2018, resulting in maize stock level of 1.2 million tons. Similarly, cumulative wheat and soya beans intake as at the same date stood at 139 000 and 40 000 tons, respectively.

67. With an anticipated 2018/19 difficult agricultural season characterised by some prolonged dry spell, the upcoming Crop and Livestock Assessment Survey results will guide the plan on food security.

Mining

68. Notwithstanding overall improved 2018 minerals output, fourth quarter performance for gold, platinum, and chrome was below that for the same period in 2016 and 2017. Similarly, palladium and nickel recorded marginal declines, owing to the foreign currency crisis which peaked in the fourth quarter of 2018.

Historical Mineral Performance

	2016 QIV	2017 QIV	2018 QIII	2018 QIV	Var QIII/QIV
Gold (kgs)	6 608	8 163	11 412	5 529	(0.52)
Platinum (kgs)	4 279	4 132	3 814	3 707	(0.03)
Palladium (kgs)	3 462	3 460	3 132	3 058	(0.02)
Rhodium (kgs)	374	336	346	336	(0.03)
Iridium (kgs)	156	200	174	143	(0.18)
Ruthenium (kgs)	345	305	280	296	0.06
Diamond (cts)		491 580	646 473	774 792	0.20
Chrome (T)	54 245	452 978	447 625	397 388	(0.11)
Nickel (T)	4 543	4 142	4 586	4 498	(0.02)
Coal (T)	528 723	549 929	1 104 767	615 516	(0.44)

Source: Ministry of Mines and Mining Development

2018 Mineral Performance

	2018 QIII	2018 QIV	Var QIII/QIV	2018 Act.	2018 Targ.	Var
Gold (kgs)	11 412	5 529	(0.52)	35 054	33 000	6.2
Platinum (kgs)	3 814	3 707	(0.03)	14703	14 300	2.8
Palladium (kgs)	3 132	3 058	(0.02)	12094	11 830	2.2
Rhodium (kgs)	346	336	(0.03)	1334	1 285	3.8
Iridium (kgs)	174	143	(0.18)	586	620	(5.5)
Ruthenium (kgs)	280	296	0.06	1155	1 105	4.5
Diamond (cts)	646 473	774 792	0.20	3 252 418	3 500 000	(7.1)
Chrome (T)	447 625	397 388	(0.11)	1 756 126	1700 000	3.3
Nickel (T)	4 586	4 498	(0.02)	17850	17 300	3.2
Coal (T)	1 104 767	615 516	(0.44)	3 347 764	3 500 000	(4.3)

Source: Ministry of Mines and Mining Development

Gold

69. Gold output in the fourth quarter of 2018 dropped by more than half from 11 412kg produced in the third quarter to 5 529kg, giving a negative variance of 52%.

70. The month of November 2018 recorded the lowest output of 1 562kgs down from 2 205kgs produced in October 2018 and then increased marginally to 1 762kgs in December 2018, following some rescue measures to selected mining houses by the Reserve Bank.

71. Notwithstanding setbacks in gold output during the fourth quarter, overall gold production for 2018 at 35 tonnes surpassed the projected target of 33 tonnes and constitute a 32% increase from 26.4 tonnes recorded in 2017.

72. Small scale miners, with a contribution of 66.4%, were leading gold producers, backed by Government financial support and incentives, as well as increased monitoring and surveillance by the Gold Mobilisation Committee aimed at curbing gold leakages.

Diamonds

73. Diamond output in the fourth quarter of 2018 increased to 775 000 carats compared to 646 000 carats produced in the third quarter, giving a positive variance of 20%.

74. However, a declining trend in output for October, November and December is notable, reflective of the challenges that were experienced in the last quarter of 2018. These challenges also delayed commissioning of the new equipment for transitioning from alluvial to conglomerate diamond mining.

75. December output was down by 4%, recording 237 374 carats compared to 247 404 carats and 241 857 carats recorded in October and November 2018, respectively.

76. Nonetheless, output has been on the upbeat compared to the fourth quarter of the same period in 2017.

77. Overall, output for 2018 increased by 9% to 3 252 million carats from the 2 508 million carats produced in 2017.

Diamond Policy

78. Government launched the Diamond Policy in December 2018. This policy seeks to regulate the sub-sector and ensure accountability, processing and selling of diamonds.

79. The policy also seeks to establish key facets in the development of the industry through exploration, maximising the mining world class processing facilities through the establishment of a diamond value chain, establishment of a gemmology centre in Mutare and making sure the community benefits from the mining activities.

Coal

80. Cumulative coal output for the fourth quarter declined to 615 516 tonnes compared to 1.1 million tonnes produced in the third quarter of 2018, giving a 44% variance. Output increased to 241 857 tonnes in November from 187 303 recorded in October. However, December output nosedived by 4% to 186 356 tonnes.

81. The lower production was as a result of foreign currency shortages, which saw Liberation mine and Beitbridge Colliery mine closing shops following the inability of the producers to procure important raw materials and critical spare parts.

82. Nevertheless, this performance was higher by 12%, compared to the same period in 2017.

83. Furthermore, cumulative output to December 2018 of 3 348 million tonnes was 14% higher than that produced in the same period in 2017.

Chrome

84. Chrome output for the quarter under review tumbled by 11% to 397 388 tonnes from 447 625 tonnes produced in the third quarter of 2018. Output dropped from 154 92 tonnes in October to 118 828 in November 2018. Marginal gains of 4% in output for December 2018 were notable, recording 123 689 tonnes.

85. Fourth quarter performance is also lower than the comparable quarter in 2017, notwithstanding improvement in prices for the metal.

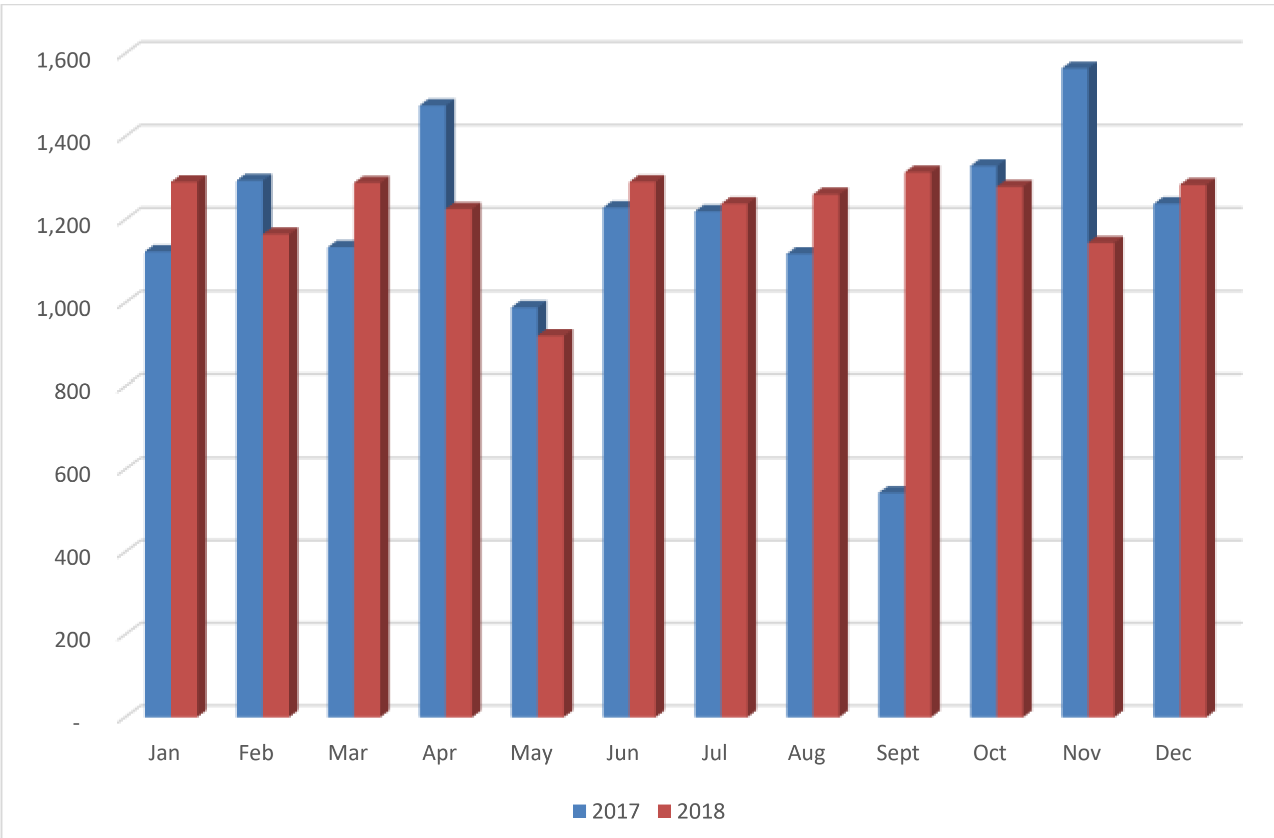
86. However, there has been marginal improvements in cumulative output to December 2018. Output increased by 5% to 1 756 million tonnes from 1 674 million tonnes produced in the similar period in 2017. This performance also surpassed our projected target for 2018 by 3% recording 1 700 million tonnes.

87. The redistribution of claims by Government and subsequent capacitation of small scale producers is yielding results as evidenced by the increase in chrome output for 2018.

Platinum

88. Platinum output for the quarter under review declined by 3% to 3 707kg compared with the third quarter output of 3 814kg.

Monthly Platinum Production (kg)



Source: Chamber of Mines

89. Overall, platinum output for 2018 increased by 3% to 14 703kg from 14 257kg realised in 2017, and surpassed the 2018 projected target of 14 300 tonnes.

90. The increase in platinum output is attributable to increased throughput from the major producer, Zimplats as the company switched to underground operations at

Bimha mine, which reached design production capacity and improved operational performances by Unki mining company.

Nickel

91. Nickel output for the fourth quarter of 2018 was lower by 2% recording 4 498 tonnes down from 4586 tonnes recorded in the third quarter of 2018. However, fourth quarter of 2018 was higher by 9% than the comparable quarter of 2017.

92. October output was the highest, recording 1 743 tones followed by December recording 1 492 tones about 18% higher than the 1 263 tones recoded for November 2018.

93. Overall, output for 2018 increased by about 7% to 17 850 tonnes compared to 16 617 tonnes produced in 2017, surpassing the 2018 targeted projection of 17 300 tonnes by about 3%.

94. This benefited from increased throughput from PGMS and ramp up in production at BNC following additional equipment which was purchased in the third quarter of 2018.

Palladium, Rhodium, PGMs

95. Reflective of the better performance in platinum is also the increase in palladium and other PGMs. Output for December 2018 increased by about 12% to 1 062kg compared to 950kg produced in November and 1 047kg produced in October 2018.

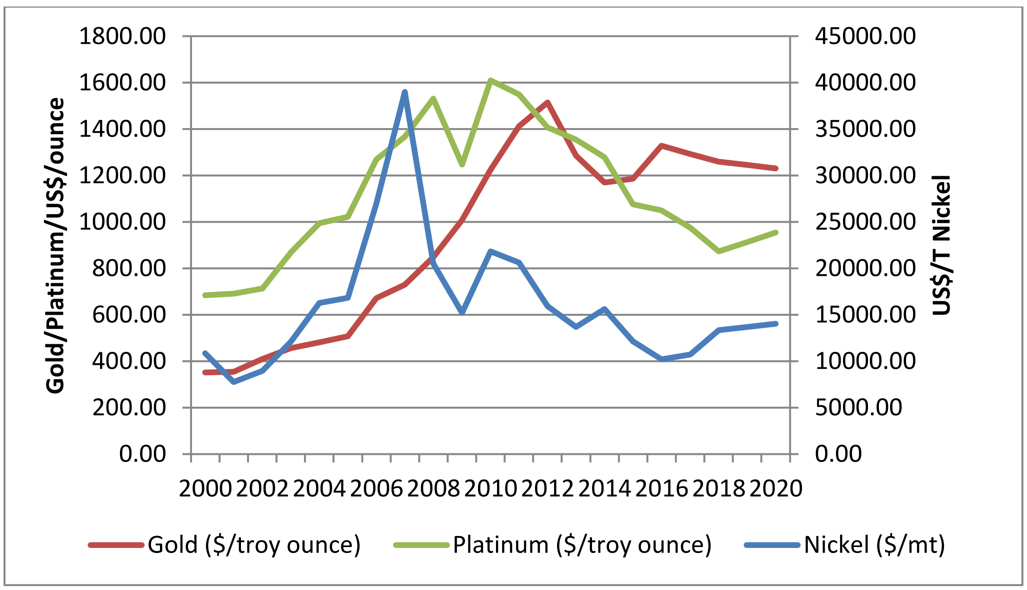
96. Palladium rose by about 2% to 12 094kg in 2018 compared to 11 822kg produced in 2017. This performance also surpassed the 2018 target of 11 830kg by about 2%.

International Mineral Prices

97. Gold and platinum prices have been declining with projections of US$1 259/ounce and US$873/ounce respectively in 2018.

98. The drop in mineral commodity prices, reflects effects of growing trade tensions between major economies, rising U.S. interest rates and the associated appreciation of the U.S. dollar.

International Prices for Selected Minerals



Source: World Bank

Manufacturing

99. In 2018, new investments were mainly registered in the sub-sectors of plastics & packaging (76.92), foodstuffs (62.50%), drinks, beverages (62.50) and wood and furniture (50%). Consequently, the sector experienced some growth in capacity utilisation from 45.1% to 48.2% between 2017 and 2018.

100. The improvement in average capacity utilization was mainly registered in sub-sectors of foodstuffs, drinks, tobacco & beverages, metal & metal products, non-metallic mineral products as well as wood & furniture.

101. However, capacity utilization dropped for the subsectors of plastics & packaging, paper, printing & publishing, clothing & footwear, chemicals & petroleum products and transport & transport equipment. Table below shows capacity utilization performance by sub sector.

Manufacturing Average Capacity Utilisation by sub-sector (2017 & 2018)

Subsector	**2017**	**2018**
Drinks, Tobacco and Beverages	51.2	59.5
Foodstuffs	56.3	58.0
Other Manufacturing	45.8	51.5
Plastics and Packaging	53.0	50.8
Wood and Furniture	45.2	50.5
Paper, Printing and Publishing	52.2	50.0
Clothing and Footwear	50	43.6
Metal and Metal Products	37.1	41.1
Non-Metallic Mineral Products	33.2	35.0
Chemical and Petroleum Products	36.1	33.2
Transport, Equipment	39.3	10.0

Source: CZI

102. However, recent negative economic developments relating to foreign currency shortages, wage increase demands, as well as some market distortions are threatening to reverse the gains achieved in the sector.

103. To sustain the gains achieved by the sector, there is need to urgently conclude the currency reform process and expedite the implementation of ease of doing business reforms.

104. Already, the 2019 National Budget has made provision for duty rebates to manufacturing sub sectors in support of their importation of critical raw materials to enhance their production capacities.

Construction Industry

105. The construction industry boom that was being experienced in the economy during the first half of 2018 suffered a huge setback following acute cement shortages and unsustainable prices of construction material during the remainder of the year.

106. This shortage of cement, in particular, undoubtedly dampened last year's envisioned growth of the industry. These shortages started in earnest beginning of August 2018, as shortage of foreign currency to procure spare parts, raw materials, packaging materials and equipment also negatively impacted on the growth of the construction industry.

107. Consequently, prices of major components such as cement increased sharply from between US$7-US$14 in August 2018 to a range of US$35-US$45 per 50kg bag. This has adversely affected progress in many construction activities, especially by individuals whose purchasing power was dampened by these price hikes.

108. The situation was also worsened by cement dealers who demanded payment in US dollar hard currency instead of the Bond Notes or RTGs, following rising and unsustainable parallel market exchange rates.

109. In light of these developments, the 2018 growth of the construction industry is estimated at 7.7%, a downward revision from the initial growth projection of 14%.

110. The 2018 growth of the construction industry is mainly attributed to increased funding towards road rehabilitation and construction by Government, as well as housing projects implemented by individuals, building societies and commercial banks throughout the country.

2019 Outlook

111. In 2019, growth of the industry will continue to be bolstered by activities of road rehabilitation and construction, power generation expansion projects, dams construction, border posts redevelopment, expansion and rehabilitation of various water & sanitation projects and expansion, as well as modernisation of state universities.

112. Investments in development of low cost housing by Government, in collaboration with public sector entities, commercial and merchant banks, as well as self-financing schemes by individuals, are also expected to sustain growth of the construction industry.

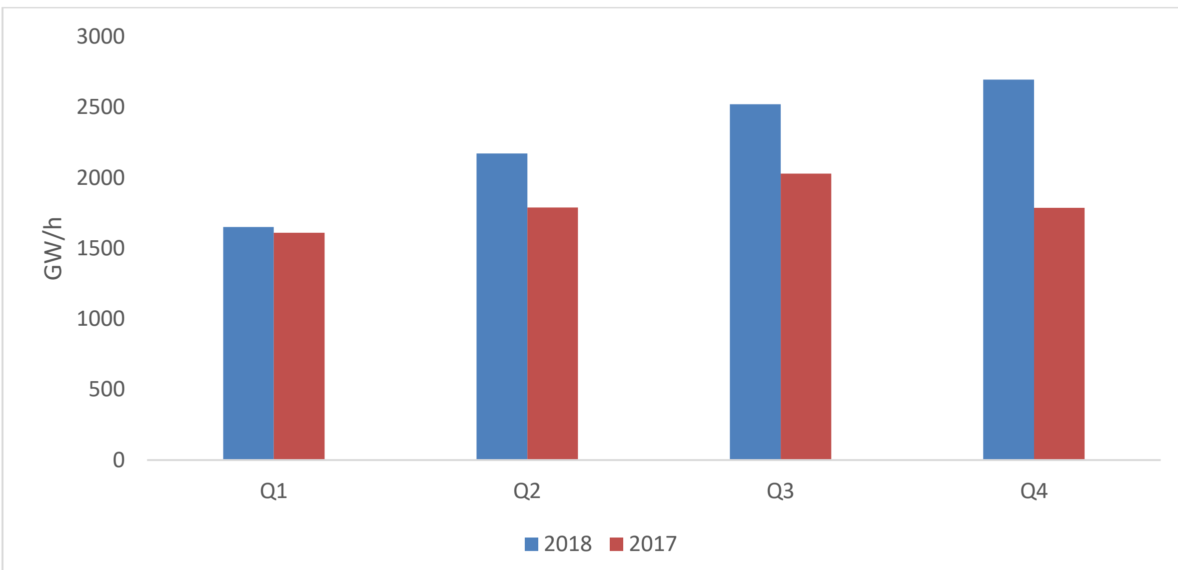
Electricity Developments

113. Electricity generation performed relatively strong compared to the set target and the same period last year. Electricity produced and sent out amounted to 2694 GW/h against the target of 2116.9 GW/h and 1784 GW/h recorded in 2017.

114. Cumulatively electricity generated and sent out during 2018 amounted to 9037 GW/h against 7217 GW/h of 2017.

115. The improvement in generation is attributed mainly to high performance at Kariba power station following increased water allocation to the station, which started in July 2018 and plant refurbishment efforts being undertake.

2018 Quarterly Electricity Developments



Source: ZPC

Tourism

116. In 2018, tourist arrivals were remarkable when compared to 2017 performance. Arrivals increased by 6% from 2.4 million in 2017 to 2.6 million in 2018. The

performance is phenomenal because all the markets recorded positive increase of tourists into the country save for a slight drop in tourists from the America. However, USA (95 025) remains the biggest overseas market followed closely by the United Kingdom (72 029).

Tourist Arrivals by Source Region

Source Region	2018	2017	% Change
Africa	2,064,534	1,948,509	6%
America	120,313	121,043	-1%
Asia	112,694	91,435	23%
Europe	232,233	218,140	6%
Middle East	7,798	7,537	3%
Oceania	42,402	36,266	17%
Grand Total.	**2,579,974**	**2,422,930**	**6%**

Source: ZTA

117. The overseas market performed exceptionally well, having increased by 9% from 474 4217 in 2017 to 515 440 in 2018, just below the 1999 peak performance of 597 010. The increase was quite significant and signalling a renewed interest on the destination.

118. Similarly, Africa, the biggest source market in terms of arrivals, registered a 6% growth from 1.9 million in 2017 to 2.0 million in 2018. Of the tourists from Africa, South Africa remains the major African source market contributing 26.2% to total arrivals from Africa followed by Malawi and Zambia.

119. The good performance of tourist arrivals subsequently translated in a 7% growth in foreign tourism receipts from US$917 million in 2017 to US$1.1 billion[1]. Similarly, domestic tourism is also estimated to have generated about US$335 million during the period under review.

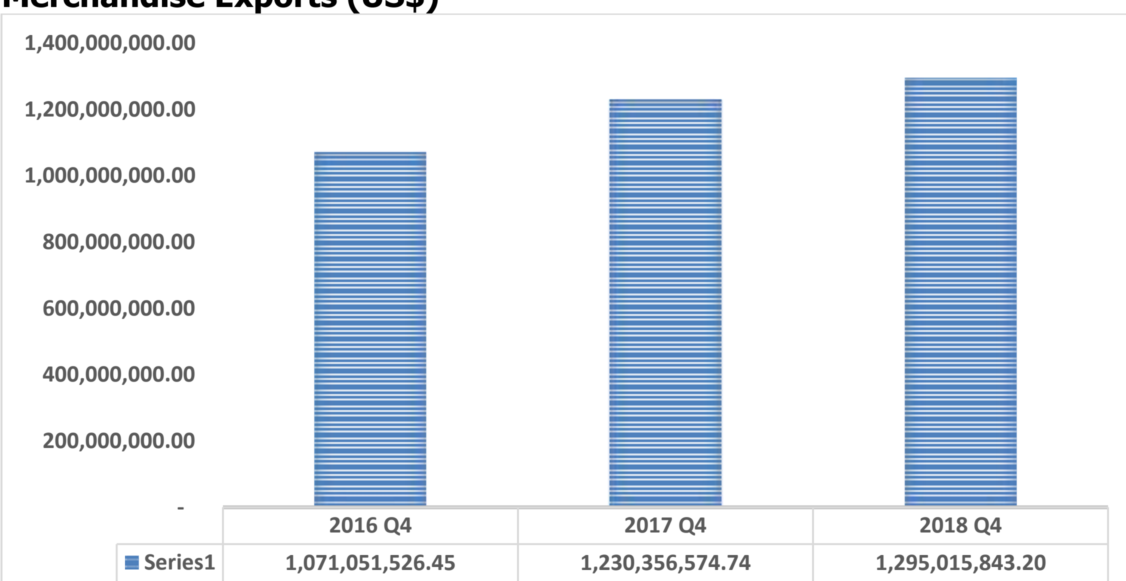
EXTERNAL SECTOR

Exports

120. During the fourth quarter of 2018, the country's merchandise exports stood at US$1.30 billion, a 13% increase from US$1.14 billion realised in the third quarter of 2018.

121. Similarly, the 2018 fourth quarter exports were 5% higher compared to the same quarter of 2017 which recorded exports of US$ 1.23 billion[2].

Merchandise Exports (US$)



Source: ZIMSTAT & RBZ

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[1] The figure on tourist receipts are still preliminary.

[2] Exports receipts for December 2017 were used for analysis purposes since ZIMSTAT did not publish merchandise exports due to ZIMRA`s Asycuda system challenges.

122. Exports were mainly from flue-cured tobacco (40%), gold (14%), nickel mattes (11%) and nickel ores & concentrates (8%), ferrochrome, industrial diamonds, among others as shown on the Table below.

123. Gold exports declined significantly by 55% from US$406.4 million recorded in the third quarter of 2018. This was mainly due to unfavourable payments terms to small scale miners following the widening of the US$ and bond note and shortage of diesel. However, the fall in gold exports was offset by a phenomenal 209.6% increase in flue-cure tobacco exports from US$ 167.1 million recorded in the third quarter of 2018.

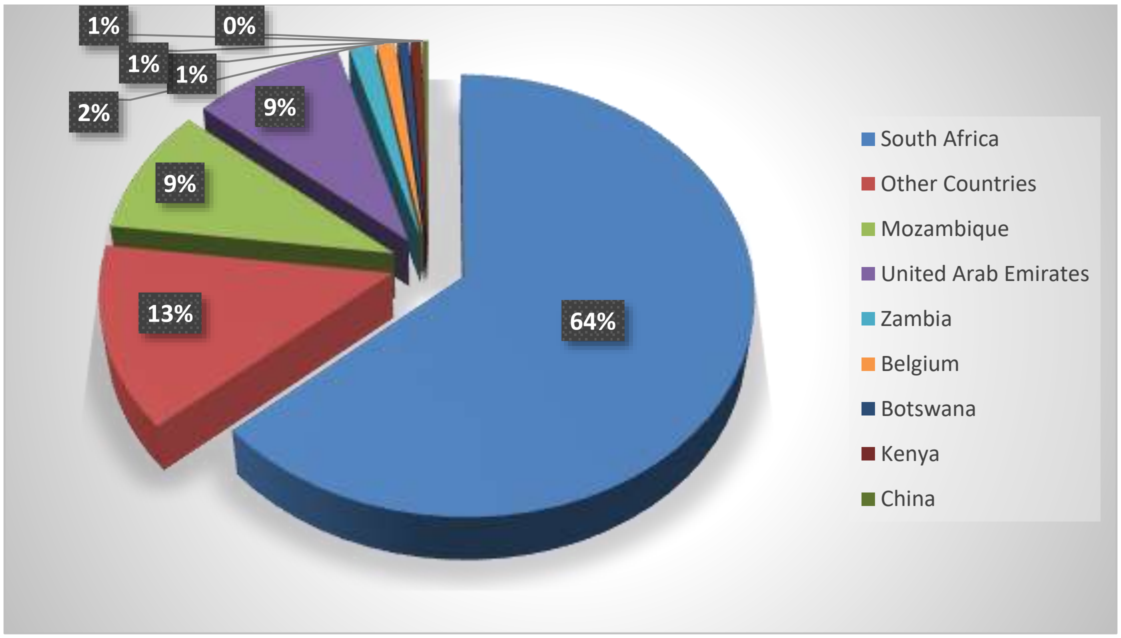
Exports classified by product

Product	Value (US$)
Flue-cured tobacco of the Virginia type partly or wholly stemmed/stripped	517,138,464
Semi-manufactured gold (incl. gold plated with platinum), non-monetary	183,579,456
Other Products	144,595,122
Nickel mattes	138,140,699
Nickel ores and concentrates	109,843,953
Ferro-chromium, containing by weight >4% carbon	58,096,144
Industrial diamonds unworked or simply sawn, cleaved or bruted	37,070,947
Chromium ores and concentrates	21,789,955
Of crocodiles	19,405,550
Other ginned cotton in staple lengths >25.5mm	17,904,194
Other cane sugar not containing added flavouring or colouring matter	13,292,415
Platinum unwrought or in powder form	12,394,729
Other articles & parts of precious metal(EXCL. SILVER)	11,157,380
Ginned cotton in staple lengths =<25.5mm, i.c.	10,606,837
Grand Total	**1,295,015,843**

Source: ZIMSTAT & MOFED Calculations

124. The top export destinations were South Africa, United Arab Emirates, Mozambique, constituting 64%, 9%, and 9%, respectively and other countries 13% as shown in the chart below:

Exports by Country Destinations



Source: ZIMSTAT & MOFED Calculations

Imports

125. Total merchandise imports stood at US$1.79 billion during the fourth quarter of 2018, a 5% increase from US$1.71 billion accumulated during the third quarter of 2018.

126. Diesel, petrol, wheat, crude soya bean oil, and fertilizers were the country's major imports during the fourth quarter of 2018.

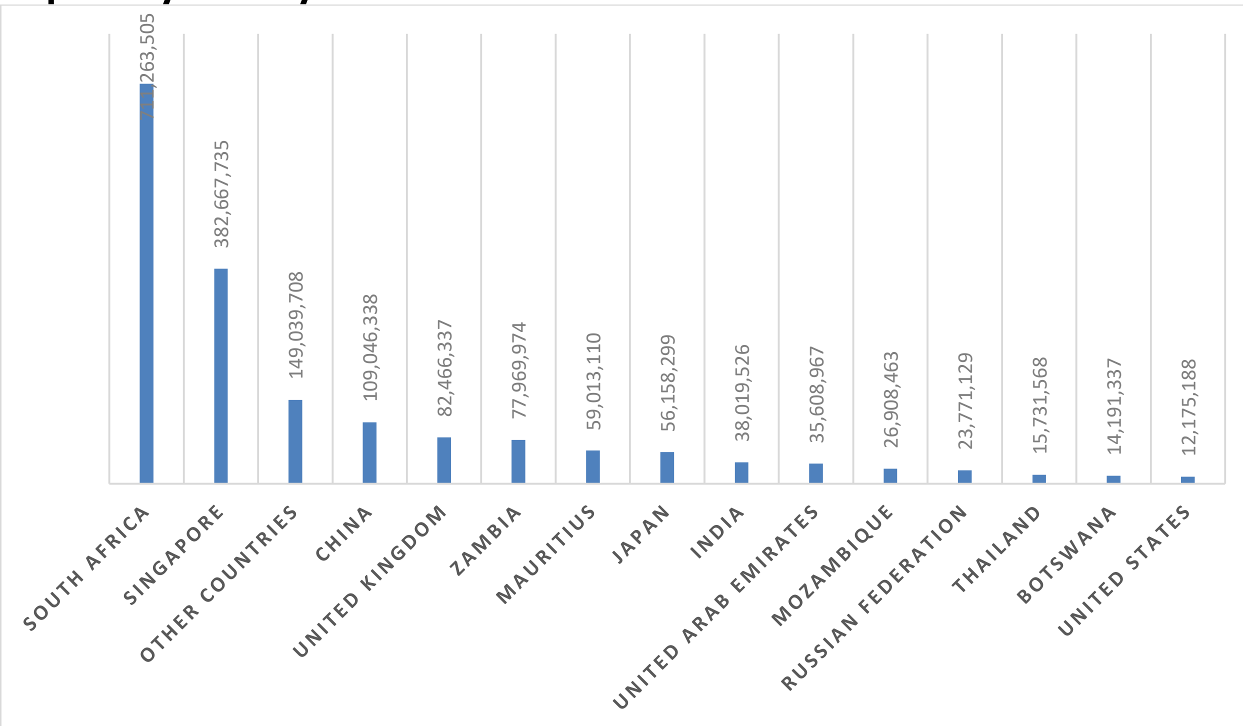
Imports by Product

Product	Value(US$)
Diesel	302,898,443
Unleaded petrol	143,499,718
Other durum wheat	33,478,599
Crude soya bean oil, whether or not degummed	31,317,370
Ammonium nitrate	31,164,248
Broken rice in Bulk >= 25kg	26,722,173
Medicaments of mixed or unmixed...in measured doses for retail sale	20,446,693
Other vehicles with spark-ignition engine of ... capacity >1000 =<1500cc	18,303,763
Other vehicles with diesel... engine of cylinder capacity >2500cc	17,383,770
Motor vehicles for the transport of goods of payload >800KG not exceeding 1400KG (1.4t)	16,895,334
Ammonium dihydrogenorthophosphate (monoammonium phosphate)	16,251,460
Goods vehicles, with diesel/semi-diesel engines, gvw 5-20t, nes	15,864,354
Other m.v. with spark-ignition engine of cylinder capacity >1500 =<2000cc	15,504,763
Road tractors for semi-trailers	15,138,735
Herbicides ,anti-sprouting products and plant growth regulators in containers <20Lor 5k	14,313,265
Aviation Spirit	14,049,734
Motor vehicles for the transport of goods being double cab vehicles	12,797,448
Composite Diagnostic...reagents...medical or veterinary research SH	11,086,449
Lubricating oils & blending stocks for lubricating oil in packings < 210 litres	11,031,868
Other Products	1,025,882,998
Grand Total	**1,794,031,184**

Source:ZIMSTAT & MOFED Calculations

127. The major import sources during the period under review were South Africa, Singapore, China, United Kingdom, Zambia, and Mauritius, contributing 40%, 21%, 6%, 5%, 4%, 3%, respectively.

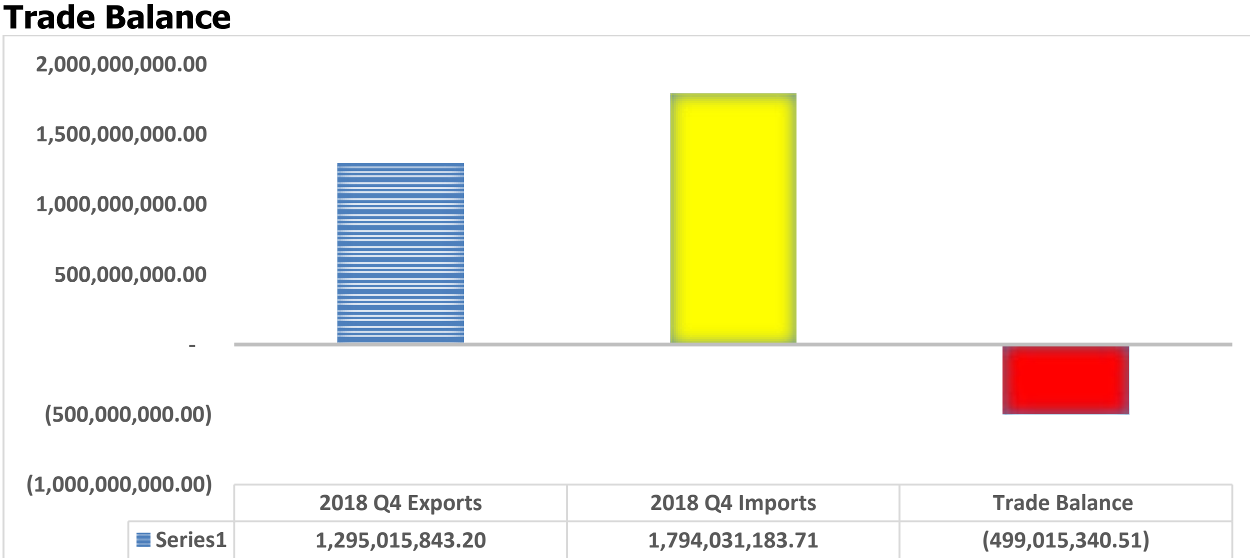
Imports by Country



Source: ZIMSTAT

128. As a result, the trade deficit for the fourth quarter of 2018 stood at US$499.02 million, 12.6% improvement from the third quarter deficit of US$570.65 million.

Trade Balance



Source: ZIMSTAT & MOFED Calculations

CONCLUSION

129. Generally, the fourth quarter of 2018 faced a lot of headwinds relative to the other quarters of the year. Challenges mainly emanated from uncertainties surrounding the currency issue, which later fed into inflationary pressures.

130. Although these developments impacted negatively on the overall performance of the economy, this, however, was not enough to offset the gains achieved during the first 9 months of the year.

Ministry of Finance and Economic Development

March 2019

ANNEXURES

Annex 1: PROGRESS ON POLICY REFORMS

POLICY ISSUE	POLICY OBJECTIVE	PROGRESS & WAY FORWARD
	Fiscal Consolidation	
1. Expenditure Management	• To contain expenditures in line with the appropriate budget deficit of below 5% of GDP and ultimately attain a budget surplus in the medium term. • This also frees resources to developmental programmes such as infrastructure and social services delivery.	***Treasury Bills*** • Government has since stopped the issuance of additional Treasury bills at the end of October 2018, except roll overs. • This has ensured that Government spends within its means and within the Budget.
		Public Wage Bill • Government successfully retired 3 188 youth officers in accordance with Cabinet's decision of 5 December 2017. • This measure translates into monthly remuneration savings of US$395 per each Officer.
		13th Cheque Payment • Starting December 2018, a new policy set bonus for civil servants based on the basic salary excluding the allowances. • This gave savings of US$75 million in 2018.
		Freeze on Hiring • Government maintained the freeze on hiring of non-critical staff, except for critical posts in health and education sectors. • Government approved the hiring of additional staff of 1 816 in health and 3 000 in education starting 2019

		Procurement of Vehicles • Government suspended procurement of ministerial and Parliamentary vehicles in view of fiscal constraints.
2. Revenue Mobilisation	• To broaden the tax base and enhance resource mobilisation which would be ring-fenced specifically for developmental programmes and projects.	***2% IMTT*** • In October 2018, Government introduced a 2 percent tax per USD value transacted, replacing a previous tax of 5 cents per transaction. • Already, US$52.5 was raised in November and US$103.8 in December 2018, giving a total of US$166.2 million for 2018. • By January 2019, the Electronic Transactions Tax raised US$98.5 million and it is anticipated that US$600 million will be raised during 2019 ***ZIMRA New Board*** • To improve on revenue administration, a new ZIMRA board was appointed on 19 December 2019. The Board is expected to spearhead the recovery of outstanding debts and other strategic interventions to improve efficiency of the Authority.
3. Budget Deficit Containment	• Containing the budget deficit to sustainable levels which also provide scope for managing the debt and inflation outcomes.	***Monthly budget deficits*** • Monthly budget deficits declined from US$651.2 million in August 2018 to US$39.8 million in September and US$242.1 million in November. Preliminary indications point to a surplus of US$732.7 million in December 2018.

		• With regards to January 2019 preliminary figures, revenue of US$508.5 million were realised against disbursements/commitments of US$395.5 million, indicating a surplus of about US$113 million.
4. Inflation	• Reign in emerging inflationary pressures (number one enemy). Year on year inflation recorded 56.7% by January 2019 from 20.9% in October and 5.4% in September 2018, which has eroded incomes.	• Month-on-month inflation, which despite shooting to 16% in October 2018, slowed down to 9.2% and 9% in November and December 2018, respectively • Inflation is expected to slow down to single digit benefitting from the fiscal consolidation measures and containment of money supply growth projected at below 10% by year end.
5. Public Debt	• Pursuing a two-pronged approach entailing: ○ Re-engagement with external creditors for purposes of resolving the external debt overhang (US$7.7 billion as at 31 Sept 2018) including arrears clearance, US$5.6 billion; ○ Containing the domestic debt (US$9.6 billion as at 31 Sept 2018) to sustainable levels through budget deficits containment.	***External Debt*** • Re-engagement with multilateral financial institutions and other creditors continues • US$108 million owed to the IMF was cleared in 2018; • US$680 million and US$1.4 billion is still owed to the AfDB and World Bank, respectively; • A further US$308 million is owed to the European Investment Bank. ***Domestic Debt*** • In 2018 alone, payments on the relinquishing domestic debt amounted to US$1.62 billion. • Further to this, payments towards domestic debt during the first two months

		of 2019 amount to US$195 million.
Monetary Sector and Currency Reforms		
6. New Monetary Policy Measures	• Removal of various distortions which prevented efficient functioning of the foreign exchange market, with implications on the rest of the economy. • The distortions also fed into multiple pricing of goods and services (denominated in RTGS transfers, mobile wallet transfers, bond notes and US dollar cash pricing). • In addition, the distortions promoted the parallel market to thrive leading to run away exchange rate premiums of as high as US$1:4 bond note and even higher in some cases, which in turn pushed up prices beyond the reach of the majority.	***Liberalised the Foreign Currency Market*** • Government liberalised the foreign currency market and discarded the fixed 1:1 exchange rate peg between the US$ and the Bond note, which was at the centre of various foreign exchange price distortions. • A new currency called the RTGS dollar, which includes electronic balances in banks and mobile platforms, bond notes and coins, was introduced. • The RTGS dollar is now new reference currency for the purposes of pricing of goods & services and accounting. • An Inter-Bank Foreign Currency Market, which comprises banks and bureaux de change was established, that way providing a broad based formal platform for efficient foreign currency trading within the economy. • A new reference exchange rate of US$1:2.5 RTGS dollar was set. • RBZ now focusing on measures to contain money supply growth. • Central Bank has put in place sufficient monitoring mechanisms which will ensure that the interbank foreign exchange market is not manipulated.
Fuel Subsidy	• Removal of fuel subsidy which had created an arbitrage in there fuel market.	• Government effectively removed the subsidy on fuel on the 12th of January 2019 by means of an increase in

	• These distortions were promoting illicit fuel exports to neighbouring countries and wasteful tendencies on the part of our motorists.	the excise duty for fuel from an average US$1.33 per litre to around US$3.33, in order remove arbitrage opportunities which had emerged in the sector.
	Structural Reforms	
7. State Owned Enterprises and Parastatals Reforms	• SOE reforms to improve their efficiency and governance, that way, improving their contribution to the economy.	***New Framework on PE Reforms*** • Reforms on State Owned Enterprises and Parastatals (SOEs) are being accelerated as outlined in the 2019 National Budget. • Implementation framework for 43 SOEs and parastatals was improved in 2018. Government has so far targeted 5 public enterprises, namely Tel-One/Net-One/Telecel, ZIMPOST and POSB for immediate reforms.
		Grain Marketing Board Cabinet on 5 February 2019 approved the unbundling of the Grain Marketing Board into Strategic Grain Reserve Unit and Commercial Entity. • The SGR Unit focuses on purchase of the strategic grain requirement amounting to 500 000 tons, while the Commercial Entity and other private players will manage the rest of the grain purchase at market based prices.

		Allied Timbers • Government has approved the identification and engagement of a strategic partner as part of the partial privatisation process for Allied Timbers, including identification of a suitable transaction advisor to assist in the engagement of the strategic partner.
		ZESA • Government approved the re-bundling of ZESA and to merge all the 5 separate units into a single integrated company with one board. The restructuring will make ZESA more viable, boost its power generation capacity and enhance the expansion of the local power supply network. This process will include the amendment of the Electricity Act in order to cater for the proposed changes in the structure of ZESA
		Lotteries and Gaming Board • Government has reviewed its decision of converting the Lotteries and Gaming Commission into a department under the Ministry of Home Affairs and Cultural Heritage. • This is to allow the Board to continue to operate as a separate entity.
		National Competitiveness Commission

		• Government has also reconsidered its decision of April 2018 to convert the National Competitiveness Commission into a Department under the Ministry of Industry and Commerce. • In this regard, the National Competitiveness Commission will continue to operate as an autonomous entity that is premised on private sector involvement.
8. Ease of Doing Business Reforms	• Accelerating and deepening the ease and cost of doing business reforms to improve competitiveness and establish a One-Stop Shop Investment Centre.	***Zimbabwe Investment and Development Agency (ZIDA)*** • An Interim Inter-Ministerial Committee to provide One-Stop Shop investment services is now fully operational, • Legislation Bill (ZIDA Bill) to underpin the establishment and operations of a specific and dedicated institution - Zimbabwe Investment and Development Agency (ZIDA) is now before Parliament. The respective Bill also seeks to provide assurance to investors about the country's commitment to property rights.
	Institutional and Political Reforms	
9. Promotion of Institutional and Political Governance Reforms as Fundamental Values Necessary for a Progressive Nation	• Establishing and strengthening good governance backed by effective, responsive and progressive institutions. • Transformation of all governance systems for a prosperous country.	***Respect for Property Rights*** • Zimbabwe remain a signatory to the following key bilateral and international agreements which guarantees investment security to all investors:

		✓ Overseas Investment Corporation (OPIC) and Multilateral Investment Guarantee Agency (MIGA). ✓ International Convention on Settlement of Disputes (ICSID). ✓ New York Convention on the Enforcement of Arbitral Awards. ✓ United Nations Convention on International Trade Law (UNCITRAL).
		Repealing of POSA and AIPPA • Cabinet approved the principles of the proposed Maintenance of Peace and Order Bill on 19 February 2019, which will repeal the Public Order and Security Act (POSA). • In addition, Cabinet approved principles of 3 Bills, which will repeal the Access to Information and Protection of Privacy Act (AIPPA) (Chapter 10:27). These are the Protection of Personal Information Bill and the Freedom of Information Bill approved on 19 February and the Zimbabwe Media Commission Bill approved on 13 February 2019.
		Cyber Protection, Data Protection, and Electronic Transactions Bill • Principles of the Cyber Protection, Data Protection, and Electronic Transactions Bill were approved by Cabinet on 19 December

		2018. The Bill is meant to provide comprehensive guidelines on cybercrimes, use of electronic data and transactions, among others.
		Citizens Law • On 26 February 2019, Cabinet approved proposed changes to the citizenship laws to pave way for the granting of dual citizenship to people born in Zimbabwe.
		Police Act • In February 2019, the Police Act amendments became effective and finally being in line with the Constitution. • This will see the country's Police Force - the Zimbabwe Republic Police (ZRP) being rebranded to the Zimbabwe Police Service (ZPS) as a professional Police responsible to the needs of the society.
	•	***Governance Commissions*** • The 2019 Budget has allocated US$44.8 million to institutions mandated to promoting good governance targeting capacitation of those Constitutional institutions mandated to promote democratic principles, and these are: ✓ Zimbabwe Electoral Commission; ✓ Zimbabwe Gender Commission;

		✓ Zimbabwe Human Rights Commission; ✓ Zimbabwe Judiciary Service Commission; and ✓ National Peace and Reconciliation Commission, among others.
	• Reaffirming commitment to peace and dialogue, and maintaining an open-door policy to resolve challenges facing the country. The objective is to remove deficit of trust, restore public confidence, forge a renewed sense of shared national vision and social cohesion and advance an economy that works for everyone.	***Political Dialogue*** • A National Political Dialogue was launched on February, 6 2019, bringing together at least 21 leaders of different political parties to confront the national socio-political and economic challenges. • Going forward, the parties have established Thematic Committees to look into different issues of interest for deliberations during the planned Dialogue meetings.

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