



TREASURY QUARTERLY BULLETIN:
October - December 2016

Ministry of Finance & Economic Development

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INTRODUCTION

1. The Fourth Quarter Treasury Bulletin provides an update on fiscal and economic developments for the period October - December 2016 as well as an overview of economic performance for 2016.
2. It also tracks and gives progress on the implementation of the 2016 National Budget.

REAL SECTOR DEVELOPMENTS

3. Notwithstanding some resilience, during the last quarter of 2016, economic indicators were on the downward side, reflecting overall economic slowdown during the year.
4. As a result, economic growth for 2016 is estimated at 0.7%.
5. Major highlights for the fourth quarter of 2016 are as follows:-
 - Revenue collections amounted to US\$902.45 million against a target of US\$998.6 million;
 - Total expenditures amounted to US\$1.641 billion, much higher than the target of US\$1.006 billion;
 - Gold output stood at 6 608 kgs was 14% higher than 5 779 kgs of the third quarter;
 - The total electricity generated in the three months amounted to 1 544.7 GW/h against the target of 1 542.8 GW/h;

- Annual headline inflation averaged -1% against the third quarter of -1.5%; and
- Import bill amounted to US\$1.4 billion against exports receipts of US\$1.1 billion.

6. Other key indicators reflecting annual performance are as follows:

- 2016 tobacco delivery stood at 203.3 million kgs, surpassing 198.9 million kgs recorded in the previous season;
- Credit to private sector increased to US\$6.38 billion in 2016 from US\$5.53 billion in 2015; and
- Money supply increased by 19.2%, to reach US\$5.68 billion in 2016 from US\$4.77 billion in 2015.

REAL SECTOR

Agriculture

7. The first half of the 2016/17 agriculture season, which stretches from October to December, started on a promising note, characterised by normal to above normal rainfall across the country according to the Meteorological Department.
8. In addition, funding to the sector towards various cropping programmes such as Special Maize production, Presidential Input Scheme for vulnerable households, cotton input support scheme as well as other various private funding initiatives, including contract arrangements

resulted in increased acreage of crop under production during the 2016/17 season.

9. In addition, there was improved availability of agricultural inputs on the market compared to previous seasons.

Special Maize Programme

10. The Special Maize Programme for the 2016/17 farming season started in earnest with a total of 168 666 ha planted under both irrigated and dry land.
11. In support of the programme, inputs were distributed as follows:
 - 6 319 tons of maize seed;
 - 150 tons basal fertilizers;
 - 31 465 tons top dressing; and
 - 10.1 million litres fuel.

Presidential Input Scheme

12. Government launched the Presidential Input Scheme to support 820 000 vulnerable households with 10kgs maize seed and 50 kgs of both basal and top dressing fertilizer.

13. By the 31 December 2016, inputs worth US\$41.7 million had been distributed to vulnerable households throughout the country, as indicated in the table below.

Inputs Distributed

	Inputs Receipts (mt)	Inputs Receipts (US\$)
Maize Seed	8 839	24 931 445
Compound D	7 665	4 405 506
Top Dressing	15 374	9 298 679
Urea	9 457	3 121 948
Total		41 757 578

14. The above Government support is being complemented by various development partners targeting 38 districts and will benefit more than 80 000 households.

Cotton Input Scheme

15. Government scaled up input support for cotton farmers targeting 400 000 households with free inputs covering a hectare each at a cost of about US\$36 million, which is double last year's input package.
16. By end of the fourth quarter of 2016, Government had distributed free cotton inputs to cotton farmers, comprising 5 722 tons of cotton seed, 21 706 tons compound L and 10 150 tons of top dressing. In addition, the private sector provided cottons inputs worth about US\$4 million.

17. The target is to attain cotton output of 100 000 tons during the 2016/17 season.

Tobacco

18. Area under tobacco for the 2016/17 season increased to 110 216 hectares, from 102 537 hectares in the previous season. This is inclusive of 87 603 hectares under contract arrangements, wherein, 19 companies are participating in supporting tobacco farmers.
19. Under the 2016/17 season, newly registered farmers increased by 56% to 13 950 from 8 959 farmers in the previous season.
20. Tobacco farmers are also being incentivized by Government through the 5% export incentive. By end of 2016, US\$29 million had been disbursed to tobacco farmers under this incentive scheme and this has motivated existing farmers to increase hectarage under the crop, while enticing other farmers to take up tobacco production.

Other Crops

21. With regards to the rest of the crops, significant rains received throughout the country, coupled with timely funding, all support positive performance for the sector.
22. Growth for agriculture sector is projected at more than 21% in 2017.

Mining

23. In the fourth quarter, key minerals such as gold, platinum and palladium performed better than anticipated, surpassing the overall targeted outputs for 2016 despite challenges related to high operating costs, capital and foreign payments challenges.
24. Table below indicates quarterly mineral production for 2016.

Quarterly Mineral Production: 2016

	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Total 2016
Gold \ kg	5105	5255	5779	6608	22747
Chrome \t	12624	35289	64113		112026
Coal \t	754319	529809	743798	673793	2701719
Nickel \t	4874	4227	4099	4543	17743
Platinum \kg	4321	3647	2863	4279	15110
Palladium \kg	3463	2940	2358	3462	12223
Diamonds (Carats)	603950	480876	361084	299908	1745819

25. Notwithstanding this, output for chrome, coal and diamonds remained subdued.
26. However, nickel marginally missed the projected output for 2016, and this was attributable to routine maintenance of equipment at the primary nickel producer, Bindura Nickel Corporation.

Gold

27. Gold output in the quarter stood at 6 608 kgs compared to 5 779 kgs recorded in the third quarter, taking advantage of the various measures

that were instituted by the Government, including gold prices that ensure costs recovery and are aligned to international parity prices.

28. Notable, was a significant increase in gold deliveries by small scale miners during the fourth quarter, at 3.2 tons surpassing the 2.9 tons produced by large scale producers.
29. The Table below shows quarterly deliveries for large and small scale producers.

Large and Small Scale Producers.

	1st Q	2nd Q	3rd Q	4th Q	TOTAL
Primary producers	2677.739	2968.247	3155.195	2958.581	11759.76
Small scale Producers	2032.902	1948.791	2535.164	3163.146	9680.003
Total (kgs)	4710.641	4917.037	5690.359	6121.727	21439.76

Source: Fidelity Printers, 2016

30. Overall, during the year, small scale producers contributed 9.7 tons up from 7.5 tons recorded in 2015. This is against large scale producers' deliveries of 11.8 tons.
31. Resultantly, gold deliveries reached 22.7 tons inclusive of 1.3 tons from PGMs in 2016.

Platinum

32. Platinum output in the quarter stood at 4 279 kgs compared to 2 863 kgs recorded in the third quarter of 2016.

33. Cumulatively platinum output surpassed the target of 15 000kgs to 15 110 kgs in 2016 against 12 564 kgs produced in 2015.

Nickel

34. Nickel output in the quarter increased to 4 543 tons compared to 4 099 tons recorded in the third quarter of 2016.
35. Cumulatively, nickel output for the year stood at 17 743 tons compared to the 16 109 tons produced in 2015 on account of the ramping up of production by the primary nickel producer and improving international prices of the commodity.

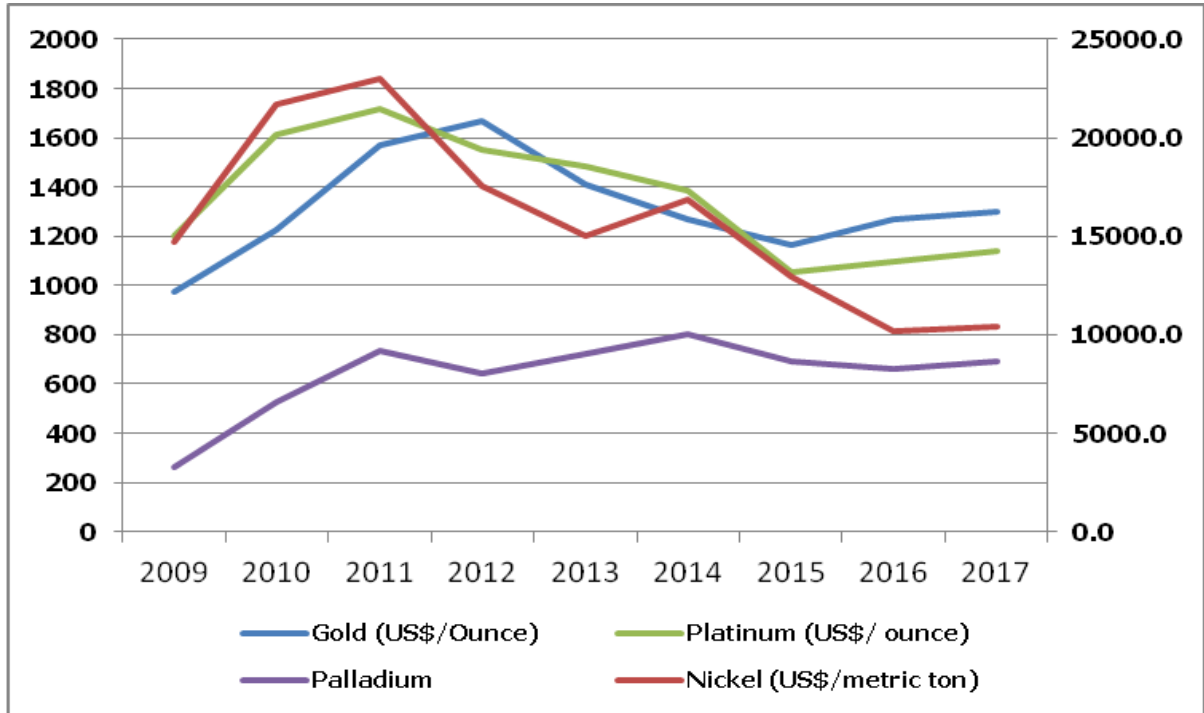
Palladium, Ruthenium & Rhodium.

36. Performance of the Platinum Group of Metals (PGMs) also improved owing to better performances in platinum and nickel.
37. Consequently, palladium surpassed the 2016 target of 12 000 kgs and recorded 12 222 kgs.

International Mineral Prices

38. Average prices of nickel and palladium were higher in the fourth quarter of 2016 compared to the third quarter of the same period. Average nickel prices for the fourth quarter increased to US\$10 772 per ton from US\$10 264 per ton for the third quarter.

International Mineral Prices

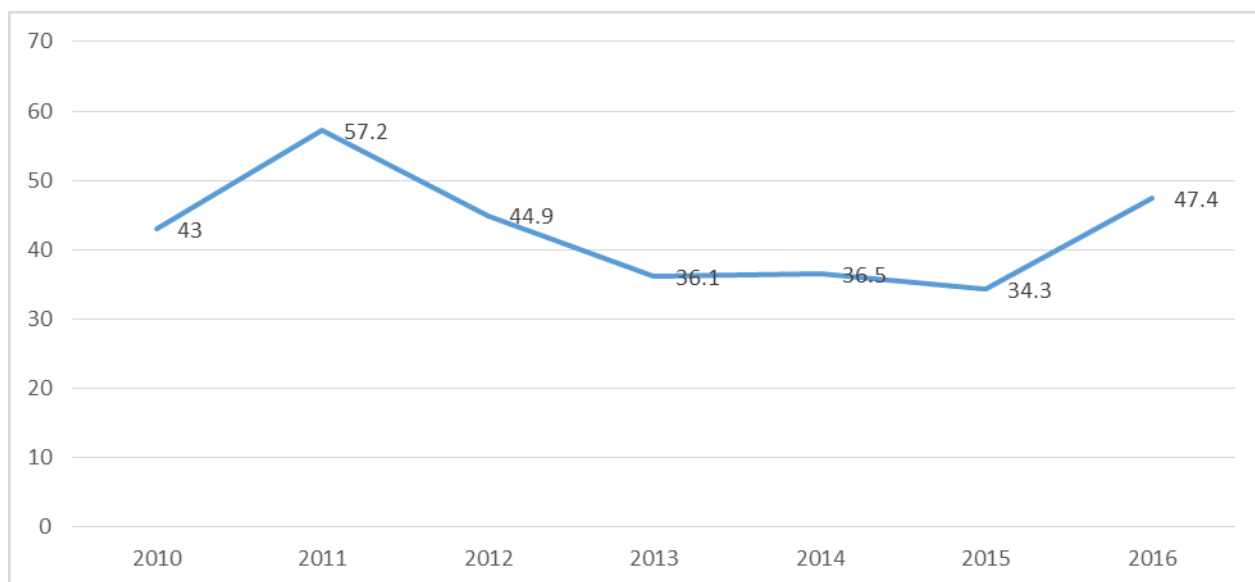


39. Similarly, average prices for palladium increased to US\$684/ounce from US\$676/ounce in the fourth and third quarter respectively.
40. At the same time, average gold prices for the fourth quarter of 2016 declined to US\$1 214/ounce from the third quarter average prices of US\$1 335/ounce.
41. Platinum prices were also lower in the fourth quarter of 2016 at US\$944/ ounce from the third quarter average prices of US\$1 085/ounce.

MANUFACTURING

42. Initial results from an evaluation of the impact of Statutory Instrument 64 indicate some positive capacity utilisation gains realised in subsectors such as foodstuffs, metal and metal products, battery manufacturers, packaging, pharmaceuticals, furniture manufacturers and paint manufacturers.
43. The SI 64 removed some of the goods from the general import licence as a way of giving the local manufacturing sector a breathing space to retool and increase capacity utilisation as well as creating employment for local citizens. The SI 64 is expected to be implemented in the next two or three years.
44. Resultantly, average capacity utilisation is estimated to have increased from 34.3% to 47.4% as indicated below.

Capacity Utilisation Levels: 2010-2016



Source: CZI, 2016

45. In terms of sector capacity utilisation, beverages sub-sectors are at 52.4%, metal products stood at 37.5%, non-metallic mineral products at 57.5%, paper, printing and packaging pegged at 52.9%, transport equipment at 45%, wood and furniture was 57.8% and other manufactured products at 43%.
46. Notwithstanding the positive gains in capacity utilisation, the industry continues to face challenges related to high cost of utilities, lack of access to cheap finance, competition from imports, low demand for domestic products and delays in the payment of imports, among others.
47. Overall, the manufacturing sector is projected to record a growth of 0.3% in 2016 compared to 0.2% recorded in 2015.

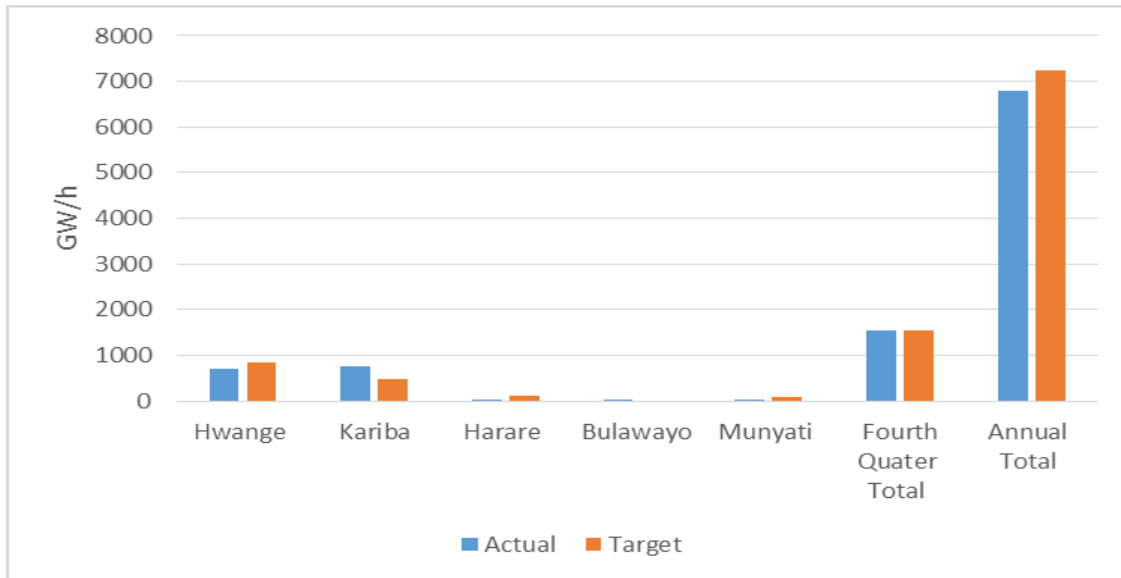
Special Economic Zones

48. In the fourth quarter, the Special Economic Zones Bill was passed into law, in a move that is expected to see the country attracting more foreign direct investment. The special economic zones are also expected to establish an appropriate regulatory and policy infrastructure to enable local and regional trade to flourish.

ELECTRICITY

49. Electricity generation during the fourth quarter, although below installed capacity, was within the projected target. The total electricity generated in the three months amounted to 1 544.7 GW/h against the target of 1 542.8 GW/h. This is against installed capacity of 4 195GW/h.
50. This brings cumulative electricity generated and sent out in 2016 to 6 779.16 GW/h against the target of 7 250.79 GW/h.
51. The lower than anticipated annual generation performance was due to fast declining water levels in Lake Kariba combined with unplanned outages at other generating power stations.

Electricity Generation (GW/h)

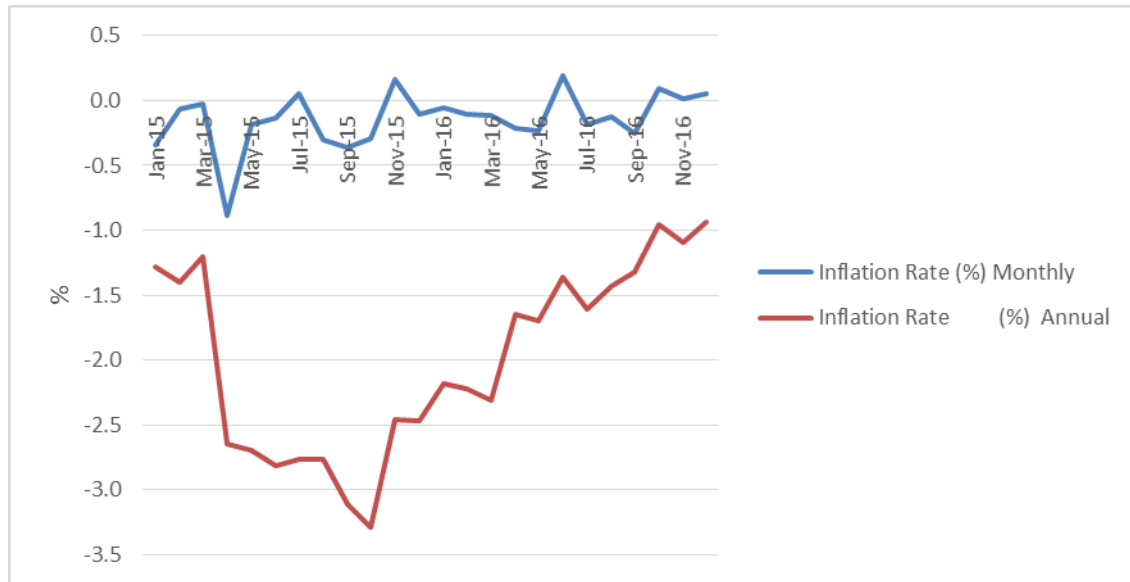


Source: ZPC

PRICES

52. Deflationary pressures during the fourth quarter of 2016 showed signs of easing. The year on year inflation for the month of October recorded -1.0%, worsening slightly to -1.1% before gaining to -0.9%% in November and December, respectively.
53. Consequently, annual inflation for 2016 averaged -1.6% against the 2015 average of -2.4%.
54. Month on month inflation during the quarter remained positive recording 0.1%, 0.0% and 0.1% in October, November and December respectively. This brought month on month average for 2016 to -0.1% against the 2015 average of -0.2%.

Inflation Developments: Jan 2015-Dec 2016



Source: ZIMSTAT

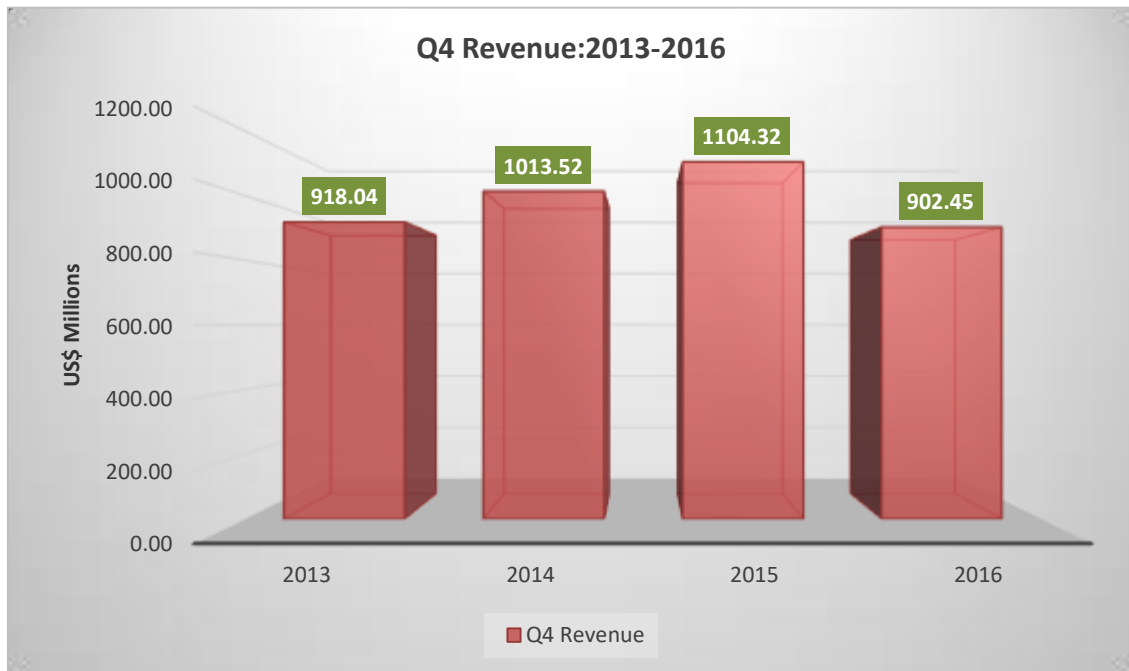
55. Major downward price adjustments were experienced in items such as food, rentals, health, transport, furniture and equipment as well as communication.
56. Notwithstanding the overall fall in prices, there were price increases in items related to education, non-alcoholic beverages, newspapers, books and stationery.
57. Weak aggregate demand, low international oil and food prices, as well as the depreciation of the South African rand were the major determinants of price formation during 2016.

FISCAL PERFORMANCE

Revenues

58. Revenues amounting to US\$902.45 million were collected compared to US\$907.35 million in the third quarter.
59. Compared to the fourth quarter of 2015, revenues were down by 18.2%. Revenue performance for this quarter also constitutes the lowest since 2013 as indicated below.

Quarterly Revenue Performance: 2013 -2016



Source: Ministry of Finance and Economic Development

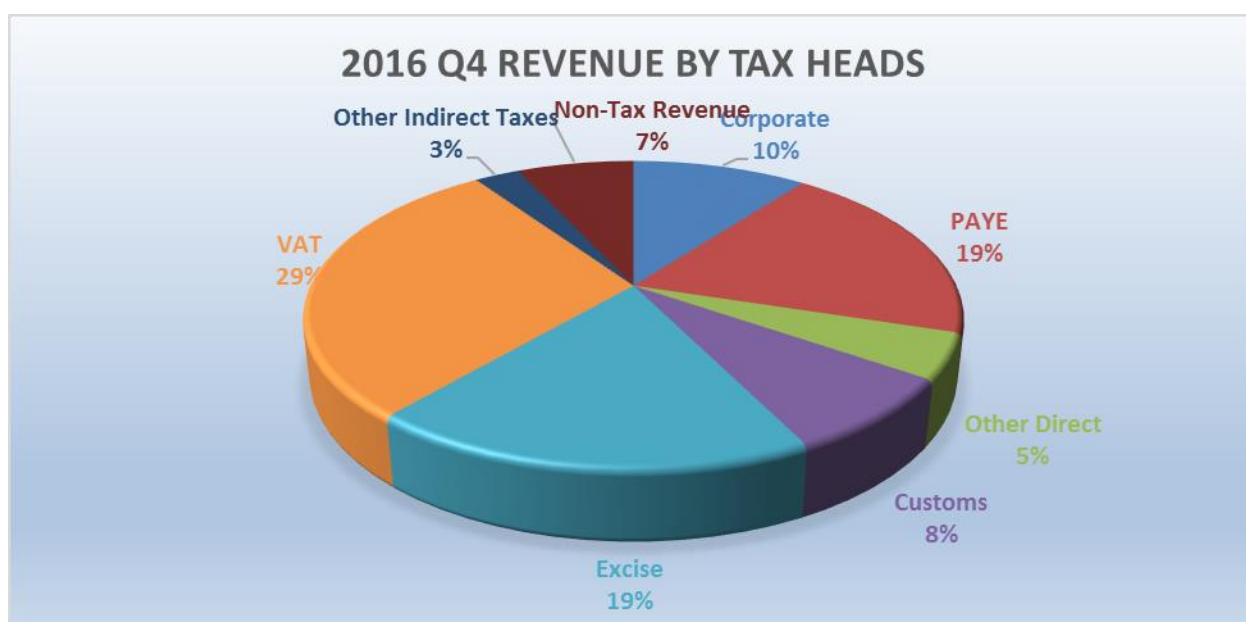
60. As a result, the 2016 fiscal year revenues closed at US\$3.502 billion against an annual target of US\$3.850 billion, translating into a negative

variance of 9%. This constitutes 24.7% of GDP down from 26.3% of GDP collected during the previous year.

Revenue Heads

61. Value Added Tax (VAT) was the highest contributor to total revenue during the period under review at 29%, followed by excise duty and Individuals' tax at 19% apiece, as shown in the figure below.

Quarterly Revenue Performance



Source: Ministry of Finance and Economic Development

62. Customs duty collections have been weighed down by the decline in imports, owing to the introduction of SI64, which was meant to curb importation of non-essential goods.

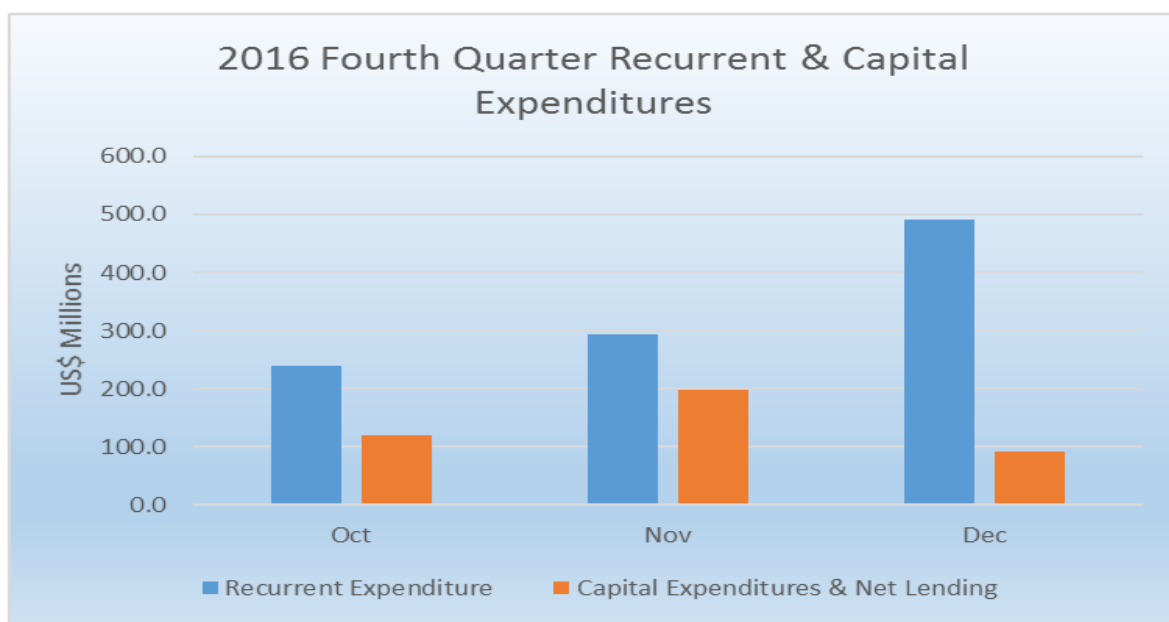
63. However, implementation of revenue measures proposed in the 2017 National Budget, that was presented on 8 December 2016, is expected to boost revenue collections in the outlook period.

Expenditures

64. Total expenditure for the quarter amounted to US\$1.432 billion against a target of US\$1.006 billion, resulting in an expenditure overrun of 42.3%.

65. Recurrent expenditures were US\$1.025 billion, while capital expenditures and net lending amounted to US\$407.2 million.

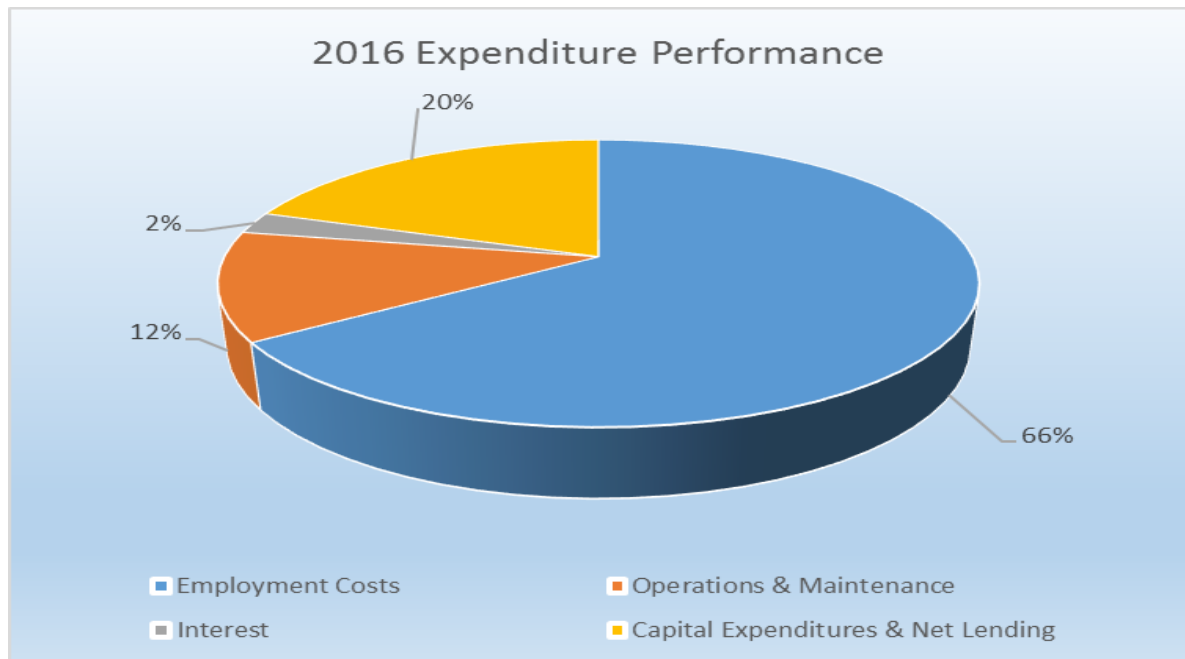
2016 Fourth Quarter Expenditures: October - December



Source: Ministry of Finance and Economic Development

- 66. For the whole year, expenditures amounted to US\$4.923 billion, made up of recurrent expenditure of US\$3.956 billion and US\$967.5 million in capital expenses and net lending.
- 67. Recurrent expenditure pressure during the year was emanating from employment costs, taking up 66% of total expenditure and about 92% of revenues.

2016 Expenditure Performance



Source: Ministry of Finance and Economic Development

Financing

- 68. Given the 4th quarter revenues of US\$902.5 million and expenditures of US\$1.432 billion, a resultant budget deficit of \$529.5 million was realised in the quarter.

69. In the face of declining revenues, the gap was largely financed through domestic borrowing, the bulk being Treasury Bill issuances.
70. Such a level of Government domestic borrowing is unsustainable as it crowds out private sector borrowing for productive activities.

FINANCIAL SECTOR

71. Annual growth in money supply increased by 19.2%, to reach US\$5.68 billion in December 2016 from US\$4.77 billion in December 2015. The increase was mainly attributable to increased use of plastic money.
72. Domestic credit in 2016 increased by 15.3%, from US\$5.53 billion in December 2015 to US\$6.38 billion in December 2016.
73. The growth in credit was largely driven by credit to government, which increased by 26.4%, from US\$1.56 billion in December 2015 to US\$2.53 billion in December 2016.
74. However, credit to private sector decreased by 4.8% from US\$3.83 billion in December 2016 to US\$3.65 billion in December 2015 as indicated below.

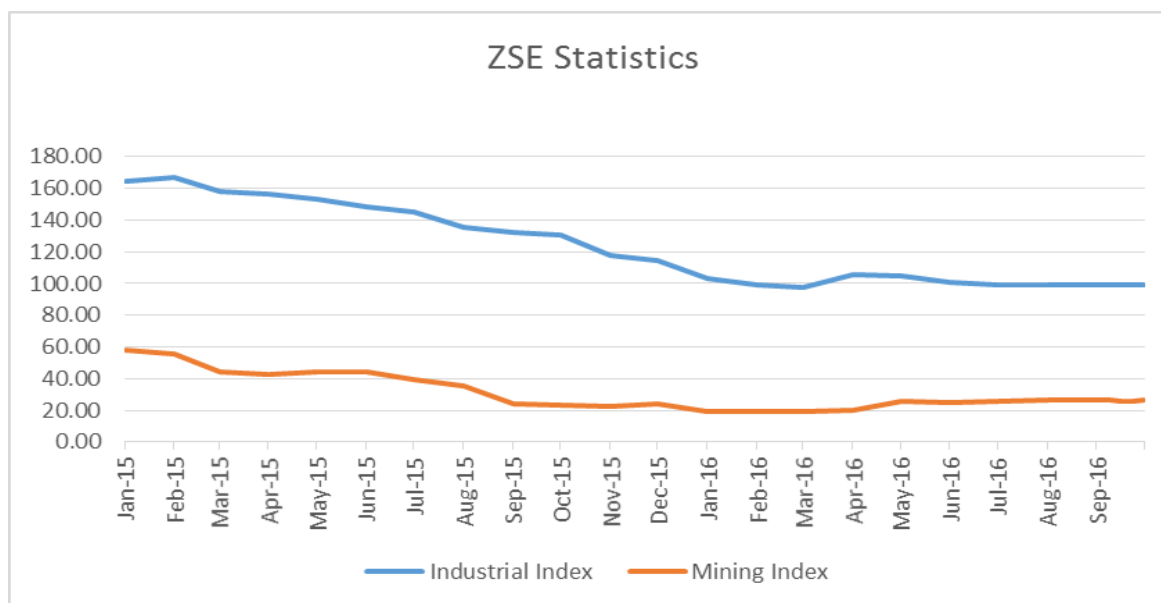
Banking Sector Indicators

000 Dollars	Dec 2015	Dec 2016	Change (Flow)	Growth
Domestic Credit	5,535,396.4	6,382,277.2	846,880.80	15.3%
Broad Money Supply	4,765,422.3	5,680,531.7	915,109.40	19.2%
Credit to Private Sector	3,830,131.6	3,648,177.5	-181,954.10	-4.8%
Credit to Government	1,564,354.7	2,531,939.5	967,584.80	61.9%

Equities Market

75. The stock market rebounded in the last quarter of 2016 as economic agents shifted portfolios from the money market to the equities market. This was mainly caused by speculation over the introduction of bond notes.
76. The industrial index opened the fourth quarter at 98.96 points and increased by 45.57 points (46.0%) to close the quarter at 144.53 points on 31 December 2016.
77. The resources index also gained 30.46 points (108.6%) and closed the year at 58.51 points. Total market capitalization of the stock market increased by 47.1%, from US\$2.725 billion as at 1 October 2016, to US\$4.007 billion as at 31 December 2016.

Zimbabwe Stock Exchange, 2016



Source: ZSE

EXTERNAL SECTOR

Merchandise Exports

78. By the end of December 2016, total exports of goods and services increased by 2% to reach US\$4.1 billion from US\$4 billion recorded in 2015, driven mainly by tobacco, gold and PGMs.
79. Tobacco exports amounted to US\$933.3 million, from US\$855.0 million in 2015. Gold exports increased from US\$753 million in 2015 to US\$913.4 million, on account of improvements in both production and international prices.
80. The table below indicates the major exports in 2016.

Major Exports in 2015 & 2016: US\$ Millions

	2015	2016
	Actual	Est
Tobacco	855	933.3
Gold	753.3	913.4
PGMs	678.2	781.5

Source: RBZ

Merchandise Imports

81. Total imports of goods and services dropped by 15% from US\$7.5 billion in 2015 to US\$6.4 billion in 2016, mainly due to the positive

impact of SI 64 and foreign currency management measures which were put in place by the Reserve Bank.

82. The major drivers of imports were fuel and maize. Fuel imports stood at US\$1.28 billion in 2016 against US\$1.46 billion in 2015. This decline can be partly attributed to the falling oil prices. Diesel worth US\$775.1 million and petrol valued US\$395.1 million was imported in 2016.
83. Maize imports stood at US\$286.5 million, from US\$164.8 million recorded in 2015, as indicated in the table below.

Major Imports in 2015 & 2016: US\$ Million

	2015	2016 Est
Fuels	1,460.90	1,283.20
Maize	164.8	286.5
Electricity	32.7	190.3

Source: RBZ

84. Electricity imports markedly rose to US\$190.3 million in 2016 from US\$32.7 million imported in 2015.
85. The increase in imports reflects the impact of outages at Hwange Power Station and drought induced reduction of water allocation at Kariba South Power Station.

Current Account

86. The current account deficit narrowed down to US\$552 billion, from US\$1.5 billion recorded in 2015. The general improvement in the current account, is largely attributed to a combination of factors, such as import substitution, coupled with import compression measures introduced by Government in 2016 as well as the low uptake of intermediate imports due to the slowdown in the manufacturing sector.

CONCLUSION

87. The overall economic performance in 2016 has been sluggish, with most economic indicators performing below their targets.
88. Major challenges experienced during the year include; subdued capital inflows, liquidity constraints and high cost of utilities, among others.
89. However, in the outlook, prospects remain positive, anchored by the firming up international commodity prices, a positive agricultural season and a potential investment benefit from the ongoing re-engagement process to stimulate economic growth.

Fiscal Policy & Advisory Services Department
Ministry of Finance & Economic Development

30 January 2017

Annexures

Annexure 1: Macroeconomic & Budget Framework

	2016	2017	2018	2019
National Accounts (Real Sector)				
Real GDP at market prices (million US\$)	12,398	12,605	13,252	14,049
Nominal GDP at market prices (Million US\$)	14,165	14,525	15,800	17,061
Real GDP Growth (%)	0.6	1.7	5	6
Household Consumption (% change)	-14.4	-13.4	-12.4	-11.4
Gross Fixed Capital Formation (% change)	18.0	19.0	20.0	21.0
Inflation (Annual Average) %	-1.5	1.1	1.6	2.1
Government Accounts				
Revenues & Grants (Millions US\$)	3,521	3,700	4,087	4,384
% of GDP	24.9	25.5	25.9	25.7
Expenditures and net lending	4,562	4,100	4,424	4,777
% of GDP	32.2	28.0	28.0	28.0
Budget balance	- 1,042	-400	- 337	- 393
% of GDP	- 7.4	- 2.5	- 2.1	- 2.3
Balance of Payments Accounts				
Exports of goods and services (million US\$)	3,365.8	3,669.5	4,081.1	4,213.8
Imports goods and services (million US\$)	5,350.9	5,206.8	5,443.3	5,599.6

	2016	2017	2018	2019
Trade Balance (million US\$)	-1283.9	-826.5	-514.1	-708.3
Deposit Corporations Survey (stock)				
Broad Money (Million US\$)	5,151	5,611	6,147	6,771
Domestic Credit (Million US\$)	6,952	7,276	7,685	8,198
Credit to Private sector (Million US\$)	3,713	3,822	4,060	4,319
Credit to Government (Million US\$)	3,062	3,292	3,480	3,751
Credit to other nonbank sectors (Million US\$)	177	162	145	128

Source: Ministry of Finance and Economic Development

Annexure 2: Agricultural Output

	2015	2016	2016
	Est.	Initial	Revised
Agriculture	-5.3	-9.8	-3.6
	2015	2016	2016
Tobacco (flue cured)	198.9	170.0	202.3
Maize	742.2	450.0	511.0
Beef	76.0	95.0	86.0
Cotton	105.0	90.0	30.0
Sugar cane	4,399.0	4,400.0	4,400.0
Horticulture	69.4	65.0	65.0
Poultry	151.0	154.0	154.0
Groundnuts	88.9	41.9	47.2
Wheat	62.3	55.0	61.7
Dairy (m It)	71.9	72.0	78.0
Coffee	0.7	0.6	0.5
Soybeans	57.9	35.0	47.7
Tea	14.0	14.0	17.7

Paprika	5.5	5.5	7.0
Pork	10.9	10.8	10.7
Wildlife	51.0	30.0	30.0
Sorghum	39.7	13.7	36.3
Barley	18.0	18.0	13.0
Sheep & goats	6.1	10.6	10.5
Sunflower seeds	21.0	25.0	25.0
Ostriches	19.0	19.0	19.0

Source: Ministry of Finance and Economic Development (2016)

Annexure 2: Volume of Manufacturing Index (Rebased 2009)

	2014	2015 Proj	2016	2016	2017
Foodstuffs	98.0	98.0	103.5	99.0	100.0
Drinks and Tobacco anBeverages	97.2	96.7	101.5	96.3	97.0
Textiles and Ginning	76.9	78.7	84.6	78.0	78.0
Clothing and Footwear	83.0	91.8	89.5	95.0	95.0
Wood and Furniture	85.5	99.8	101.0	96.2	97.0
Paper, printing and Publishing	98.1	93.3	96.5	90.4	91.0
Chemical and Petroleum Products	88.7	88.4	87.5	87.4	85.0
Non metallic mineral products	130.2	140.6	144.3	143.0	143.9
Metals and Metal products	70.3	67.5	68.8	66.5	66.0
Transport, Equipment	61.4	63.2	65.2	66.0	66.0
Other manufactured goods	60.5	63.5	72.9	66.7	67.9
Manufacturing Index	68.5	89.9	93.1	90.3	90.3
Manufacturing Growth Rate	-5.1	0.2	2.1	0.3	0.1

Source: Ministry of Finance and Economic Development (2016)