TREASURY BULLETIN

October - December 2017

Ministry of Finance & Economic Development

CONTENTS

INTRODUCTION

1. This Treasury Bulletin gives highlights on fiscal and macroeconomic developments during the last quarter of 2017.

2. Clearly, tax and non-tax revenues continued to positively perform translating into 10.3% positive variance above projected revenue collections, albeit against growing expenditure pressures.

3. The financial sector also remained resilient and sound during the quarter, while exports rose by 29.2% over the previous quarter. Imports also performed slightly higher than the third quarter by 2.6%, resulting in a quarterly trade surplus.

PUBLIC FINANCES

4. Revenue collections for the fourth quarter of 2017 performed above the targets, while overruns in expenditure were incurred. Financing was entirely from the domestic market, a situation which perpetuates the private sector crowding out effect and also promotes financial instability.

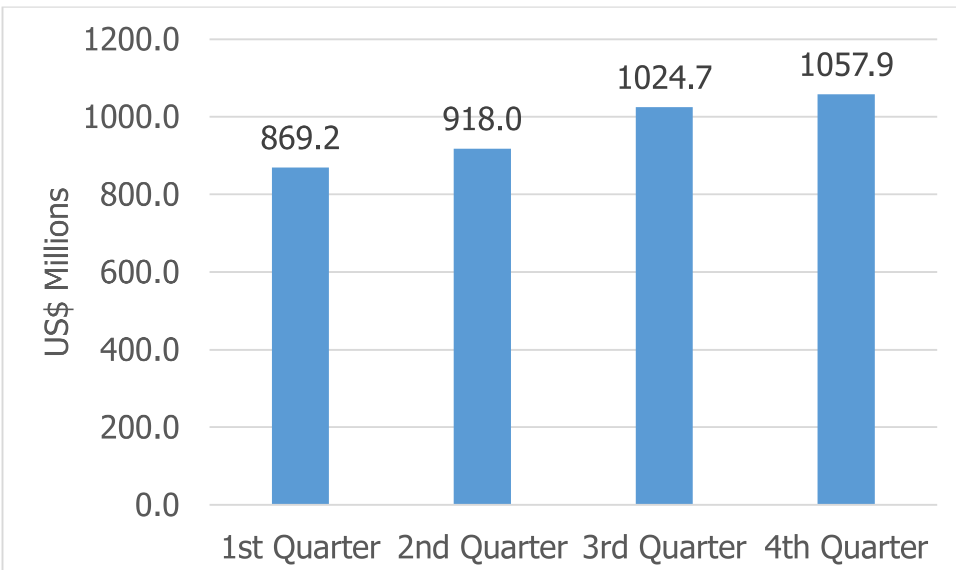
Revenue Performance

5. Cumulative tax and non-tax revenue collections for the fourth quarter of the year amounted to US$1.058 billion, against a target of US$958.9

million, resulting in a positive performance of US$99.1 million or 10.3%.

6. This performance represents an increase of 17.2% from the collections of US$902.5 million recorded during the same period in 2016 and a 3.2% increase compared with the $1024.7 million collected in the third quarter.

2017 Quarterly Revenues



Source: Ministry of Finance and Economic Development

7. The Table below shows the revenue performance against targets for the period October to December 2017.

Revenue Performance: Oct - Dec 2017 (US$ Million)

	Actual	Target	Variance (%)
Total Revenue	1 057.9	958.9	10.3
Tax Revenue	983.9	880.4	11.8
Non tax Revenue	74.0	78.4	-5.6

Source: Ministry of Finance and Economic Development

8. Notably, Tax Revenue recorded a positive variance of 11.8%, whilst Non-tax Revenue under-performed by 5.6%.

9. Proportionally, tax revenue accounted for 93% of total revenues, while non-tax revenue contributed 7%.

10. Improved tax revenues during the last quarter of 2017 is attributable to the high economic activity and inflation that was on an upward trend with year-on-year inflation increasing from 2.2% in October to 3.5% in December.

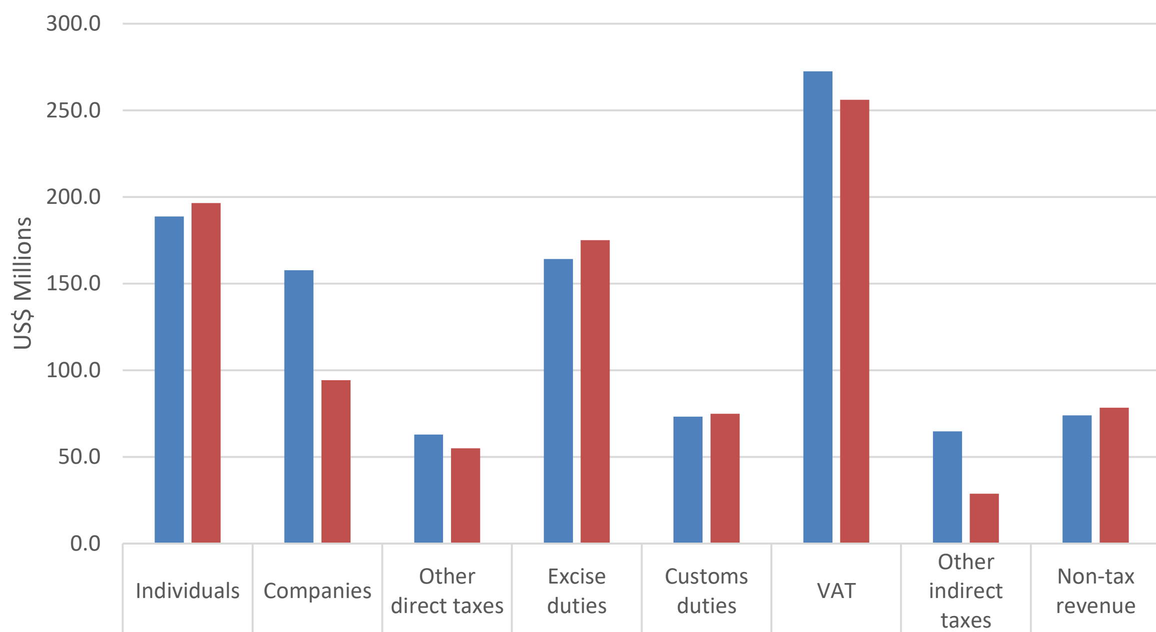
11. Non-tax revenue, on the other note, amounted to $74 million for the period October to December, is comprised of fees, fines, rentals, interest, dividends, Government sales, business licences and pension contributions, among others.

12. This was, however, lower than the projected target of $78.4 million.

Revenue Heads' Contribution

13. While half of the revenue heads performed above the targets, the traditional better performers, PAYE and Excise duties slightly performed below the targets along with Customs duties and Non tax revenue as indicated on the graph below.

Performance of Revenue Heads: Oct - Dec 2017



	Individuals	Companies	Other direct taxes	Excise duties	Customs duties	VAT	Other indirect taxes	Non-tax revenue
Actual	188.8	157.7	62.9	164.2	73.2	272.4	64.6	74.0
Target	196.5	94.2	55.0	175.1	74.8	256.1	28.7	78.4

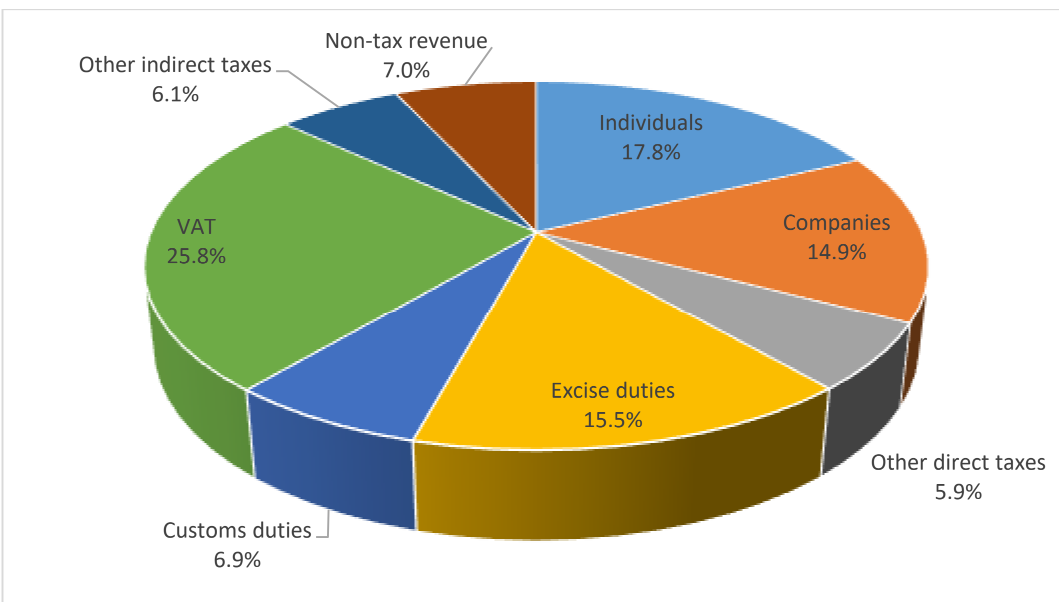
Source: Ministry of Finance & Economic Planning

14. PAYE, Excise duties, Customs duties and Non tax revenue collections marginally performed below their targets but the total actual revenues were greater than the total projected because the magnitude of the negative variances was minimal.

15. The major contributors to revenue collections continued to be VAT, at 25.8, followed by Personal Income Tax, 17.8% and Excise Duty, 15.5%. Companies' tax collections improved its contribution to total revenue from 10.9% in the third quarter to 14.9% making the revenue head one of the major contributors to total revenues during the quarter.

16. 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 Performance

17. Budget expenditures over the period under review amounted to US$1.734 billion, against the planned US$990 million.

18. Resultantly, expenditure over-runs of US$744.3 million were incurred, mainly due to over-expenditure on Operations & Maintenance (US$314.2 million) and Capital & Net Lending (US$335.2 million).

Expenditure: Oct – Dec 2017 (US$ Million)

	Actual	Target	Variance (%)
Total Expenditure & Net Lending	1 734.2	990	-75.2
Employment Costs	816.0	728.5	-12.0
Operations & Maintenance	418.7	104.5	-300.6
Interest	53.8	46.5	-15.7
Capital & Net Lending	445.7	110.5	-303.4

Source: Ministry of Finance & Economic Development

19. Subsequently, the 2017 fourth quarter expenditure over-run was way higher than the US$425.5 million overrun recorded during the same period in 2016.

Employment Costs

20. Expenditure on employment costs for the fourth quarter to December 2017 amounted to US$816.0 million, against a target of US$728.5 million, resulting in an expenditure overrun of US$87.6 million.

Employment Costs: Oct - Dec 2017 (US$ Million)

	Actual	Target	Variance
Total Employment Costs	**816.0**	**728.5**	**87.6**
Civil Service	585.1	522.8	-62.3
Grant Aided Institutions	105.7	86.3	-19.4
Pension	125.3	119.4	(5.9)

Source: Ministry of Finance & Economic Planning

Operations and Maintenance

21. Operations and Maintenance costs amounted to US$418.7 million, against planned expenditures of US$104.5 million, exceeding the quarterly target by US$300.6 million and the preceding quarter expenditures of US$324.3 million.

22. The significant over-expenditure on operations and maintenance is mainly due to payment of arrears to service providers on rental and other service charges.

Interest on Debt

23. A total of US$53.8 million was expended on interest on debt against a target of US$46.5 million.

24. Notably, interest on domestic debt continues to account for a greater portion of the total interest paid during the period October to December 2017 at US$32.4 million which is 60.2% of the total paid.

25. This is an indication of the recent structure of budget financing which is skewed more to short term domestic financing in the face of limited external financing.

Capital Expenditures & Net Lending

26. Cumulative Capital expenditures and Net Lending amounted to US$445.7 million, against a target of US$110.5 million, resulting in an over-expenditure of US$335.2 million.

27. The overrun in capital expenditure was mainly due to payments towards capital transfers at US$265.5 million against the US$51.3 million quarterly target. Most of the transfers were expended towards the purchase of inputs under the Command Agriculture.

28. Net lending at US$102.6 million consisted entirely of short term lending without any recoveries from previous short term advances to Government companies.

Financing

29. The 2017 fourth quarter financing was quite high with the entire borrowing requirements having been funded from the domestic market, through issuance of Treasury bills.

30. Consequently, net financing amounted to US$676.2 million, of which bank financing was at -US$180.7 million, while non-bank actors provided US$857.0 million.

Financing: Oct – Dec 2017 (US$ Million

	Amount
Total Net Financing	**676.2**
Foreign Financing	0
Domestic Financing	676.2
Non-Banks	857.0
Bank	(180.7)

Source: Ministry of Finance & Economic Development

31. This poses a serious fiscal risk and therefore would require that, going forward, the Government takes significant fiscal adjustment measures in order to achieve a budget surplus.

REAL SECTOR DEVELOPMENTS

32. Economic developments during the fourth quarter of the year 2017 reflected continued resilience of the economy. The growth of 3.7% has been maintained.

33. The positive growth trajectory draws from the good performance in agriculture and some recovery in international mineral commodity prices.

34. This is, notwithstanding the risks related to foreign currency shortages as well as high inflationary pressures during the quarter.

Agriculture

35. The 2017/18 agriculture season has proven to be challenging owing to erratic start of rains. Further risk comes in from January to February 2018.

36. The situation was worsened by shortage of agriculture inputs such as hybrid maize seed and fertilizers in the early part of the season attributed to shortage of foreign currency.

Deliveries to GMB

37. As at December 2017, cumulative maize inflows to GMB stood at 1.2 million tons, of which 458 000 tons were deliveries from *'Command Agriculture'* Programme.

38. Similarly, wheat deliveries were 177 069 tons of which 138 696 tons were from *'Command Agriculture'* as at the same date.

Update on the 2017/18 agriculture Season under Command Agriculture Programme

39. Under the 'Command Agriculture' Programme, 392 348 and 65 233 ha were registered under maize and soya beans production, respectively, as at end of December 2017.

40. Of the above, 235 236.18 ha were contracted by 40 554 farmers under maize and 33 474 ha were contracted by 3 787 farmers under soya beans as at 2 January 2018.

41. Table below provides contracted and area planted update summary:

Contracted and planted area for maize and soya beans

Crop	Area Contracted	Area Tilled	Area Planted	Contracted Farmers
Maize	235 236.18	128 974.55	101 123	40 554
Soya	33 474	17 768	7 305	3 787

Source: Ministry of Lands, Agriculture and Rural Resettlement

42. In addition, private players made contract arrangements totalling 23 500 ha under maize and 8 970 ha under soya beans during the 2017/18 season.

Tobacco

43. The number of registered farmers went up 40% to 112 000 farmers as at 31 December 2017 from 80 000 registered the same period last year.

44. Similarly, area planted for the crop went up to 75 000 ha from 70 000 ha as at 15 December 2017.

Mining

45. Key minerals such as gold, chrome and diamonds performed better than anticipated in 2017 surpassing targets. This was notwithstanding the challenges that are facing the sector, key among them, serious shortage of foreign currency to procure spare parts and consumables.

2017 Quarterly Mineral Production

	QI	QII	QIII	QIV	Total	Proj
Gold/kg	5 043.81	5 784.23	7 503.53	8 062.25	26 494.8	24 500.0
Nickel/t	4 009.77	4 550.60	3 914.20	4 142.28	16 616.80	17 700.0
Coal/t	362 963.5	909 124.0	1 106 020.0	549 928.50	2 928 036.0	3 500 000.0
Chrome/t	329 231.6	352 238.7	539 547.8	4529 78.27	1 673 996.3	1 500 000.0
Platinum/kg	3 551.60	3 692.6	2 880.81	4 132.1	14 257.1	15 500.0
Paladium/kg	2,948.49	3 047.4	2 367.0	3 459.5	11 822.4	12 400.0
Diamonds	567 285.0	820 752.7	628 244.48	491 580.0	2 507 862.1	2 500 000.0

Source: MOFED, RBZ, Ministry of Mines, Chamber of Mines and ZIMSTAT

46. However, the 2017 growth projection was undermined by under-performance of coal, nickel and PGMs missing the projected outputs.

47. Subdued international mineral prices weighed down production for such minerals as platinum and subsequently, PGMs.

Gold

48. A significant increase in gold deliveries by small scale sector was recorded in 2017 contributing around 53% to total gold produced in 2017 up from 41% recorded in 2016.

49. Small scale producers progressively delivered more gold in the third and fourth quarter of 2017 at 4 tons and 4.5 tons respectively against 3.1 tons and 3.2 tons produced by large scale producers over the same period in 2016.

50. Production strongly benefited from the various measures that were instituted by the government such as the continued gold mobilisation efforts by the Gold Mobilisation Technical Committee and the increased disbursements of funds for the Gold Development Fund aimed at capacitating small scale miners.

51. Table below shows 2017 quarterly deliveries for large and small scale gold producers.

	1st Q	2nd Q	3rd Q	4th Q	TOTAL
Primary producers/kg	2 553.9	2 820.4	3 119.5	3 173.7	11 667.5
Small Scale producers/kg	2 082.9	2 543.4	4 042.9	4 507.2	13 176.4
TOTAL/KG	4 636.9	5 363.7	7 162.4	7 680.9	24 843.9

Source: Fidelity Printers

52. Resultantly, gold deliveries reached 26.5 tons in 2017 compared to 23.2 tons produced in 2016 including PGMs.

Platinum

53. Platinum output in the last quarter of 2017 improved to 4.1 tons compared to 2.9 tons recorded in the third quarter of 2017.

54. Cumulative platinum output for 2017 of 14.3 tons was not only lower than the target of 15.5 tons; it was rather lower than the 2016 output of 15.1 tons in 2016.

55. This underperformance was as a result of depressed international mineral price and scheduled maintenance shutdown that took place at the major producer, Zimplats.

Nickel

56. The underperformance in PGMs was also reflective in the underperformance of nickel which also missed its 2017 target.

57. However, output has been on the upward trend with the fourth quarter recording 4 142 tons compared to 3 914 tons recorded in the third quarter of 2017.

58. Resultantly, a cumulative output of 16 617 tons was recorded in 2017. This was much lower than the 17 743 tons recorded in 2016.

59. This was attributable to scheduled maintenance and mine redevelopment in an effort to deepen and widen the mine shaft at the Nickel giant producer, BNC.

Palladium, Ruthenium & Rhodium.

60. Similarly, performances of palladium, rhodium and ruthenium were affected by the underperformances in PGMs.

61. Consequently, palladium missed the 2017 target of 12 400 kgs and recorded 11 822 kgs.

Coal

62. Production of coal for 2017 benefited from several strategies that were put in place by Hwange Colliery mine which include, among others, a scheme of arrangement which allowed the company to concentrate on production and pay off its creditors as agreed, recapitalization efforts and various cost cutting measures.

63. Resultantly, output picked from as little as 362 964 tons recoded in the first quarter to around 1 106 020 tons in the third quarter. Fourth quarter output was however subdued recoding 549 929 tons. This was due to foreign currency shortages.

64. Cumulatively, coal output for 2017 at 2 928 036 tons was lower than projected target of 3 500 000 tons.

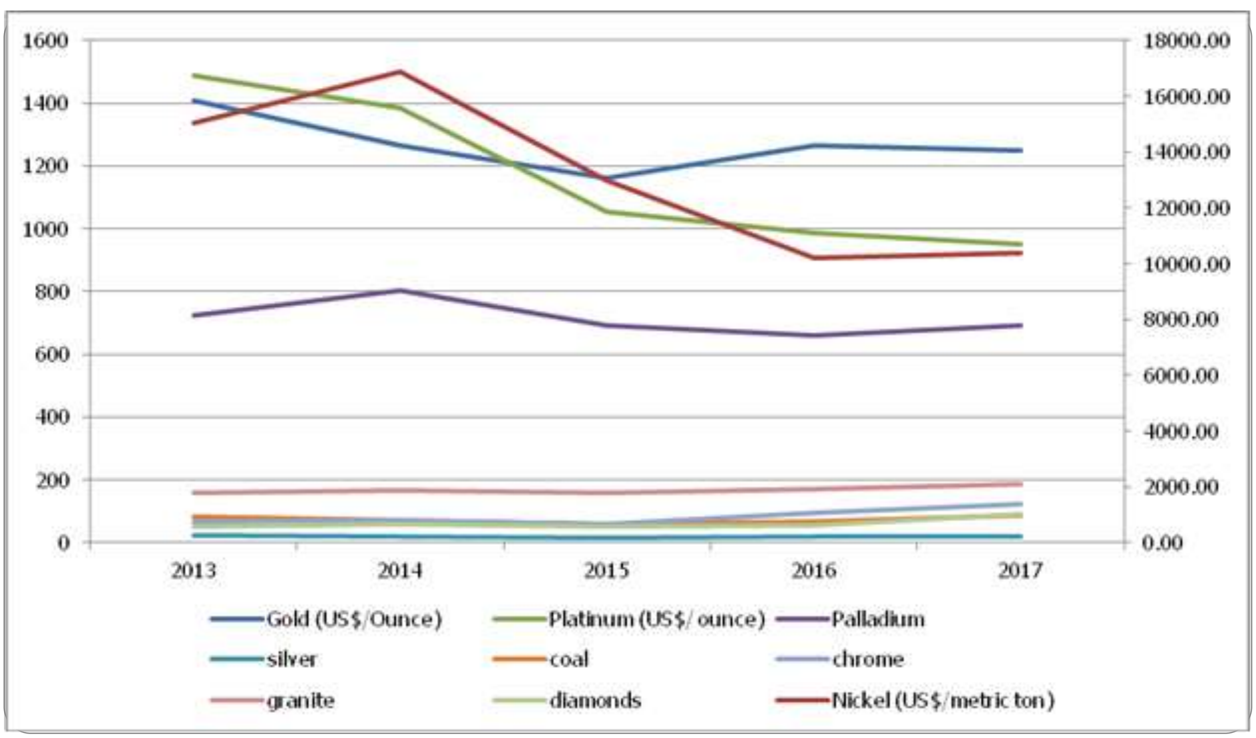
Diamonds

65. Fourth quarter performance was lower than the third quarter recording 491 580 carats and 628 244 carats respectively. This notwithstanding, the overall 2017 production of 2 507 862 was in line with the projected output of 2 500 000 carats.

66. Performance was affected by delays in securing foreign currency for the purchase necessary equipment to kick start conglomerate mining following significant capital injections by the ZCDC shareholders to the tune of US$80 million for the acquisitions of equipment and working capital.

International Mineral Prices

67. Production performance of most minerals was affected by relatively lower international mineral prices, which remained low over 2016 and 2017 compared to 2014.



Source: World Bank

Manufacturing

68. In the 4th quarter, the sector performance was mainly driven by agro-processing value chains, with capacity utilisation, reported at above 50% in those sub sectors.

Average Capacity Utilisation per Sector: 2016 - 2017

	Average Capacity Utilization (%)	
Subsector	**2016**	**2017**
Chemical and petroleum products	43.6	36.1
Textiles, Clothing and Footwear	46	50
Drinks, Tobacco and Beverages	52.4	51.2
Foodstuffs	56.1	56.3
Metal and Metal products	37.5	37.1
Non-Metallic products	57.5	33.2
Paper Printing and Packaging	52.9	52.2
Transport and Equipment	45	39.3
Plastics and Packaging	52.9	53.0
Wood Furniture	57.8	45.2
Others	43	45.8

Source: CZI, MoICED

69. The improved aggregated demand in the economy, associated with festive season and improved consumer and business confidence, stimulated activity in sub-sectors such as drinks, tobacco and

beverages, foodstuffs and dairy products, packaging, clothing and footwear among others.

70. However, the potential of the manufacturing sector remain constrained, among other factors, by liquidity challenges as well as foreign exchange shortages required to import critical raw materials.

71. In the outlook, the manufacturing sector is projected to grow by 2.1% in 2018 from 1% in 2017, benefitting from improved consumer and business confidence, implementation of reform measures aimed at reducing the cost structures and the ease of doing business.

72. The implementation of the reform measures is expected to improve the competitiveness of the manufactured products on the global market.

73. In addition, the improvement in business environment is also expected to attract new investments into the sector, as well as the resuscitation and re-opening of closed companies, hence, improved employment levels and output.

Electricity

74. Total generation during the quarter amounted to 1787.54 GWh against 1544.78 GWh achieved in 2016.

75. Cumulatively, total annual generation for the year 2017 stood at 7217.54 GWh, representing a 6.47% increase, compared to the 2016 annual output.

76. The improved performance compared to 2016 was on account of increased water allocation at Kariba Power Station.

77. However numerous forced outages that were recorded at Hwange, the unavailability of turbo-alternator 2 due to a leaking steam receiver at Harare, low coal stock levels at Munyati and Bulawayo, resulted in missing quarterly and annual targets being missed by 8.30% and 7.73%, respectively.

78. The Table below summaries the electricity production profile for the year 2017.

	Sent Out 2017	Target 2017	Sent Out 2016	Variance from target	Variance from 2016
Jan	490.89	672.31	652.11	-26.99	-24.72
Feb	515.18	571.62	538.75	-9.87	-4.38
Mar	604.25	614.72	560.32	-1.70	7.84
Apr	574.88	573.29	560.87	0.28	2.50
May	617.97	652.44	601.32	-5.28	2.77
Jun	596.95	677.03	562.76	-11.83	6.08
Jul	706.20	745.15	590.94	-5.23	19.50
Aug	708.80	723.09	615.31	-1.98	15.19
Sep	614.88	656.35	551.99	-6.32	11.39
Oct	623.44	643.28	548.77	-3.08	13.61
Nov	574.23	627.77	499.05	-8.53	15.06
Dec	589.87	664.99	496.96	-11.30	18.70
TOTAL	**7217.54**	**7822.05**	**6779.16**	**-7.73**	**6.47**

Source: ZPC

PRICES

79. Inflationary pressures picked up during the fourth quarter driven mainly by market force interplay linked to foreign currency shortages.

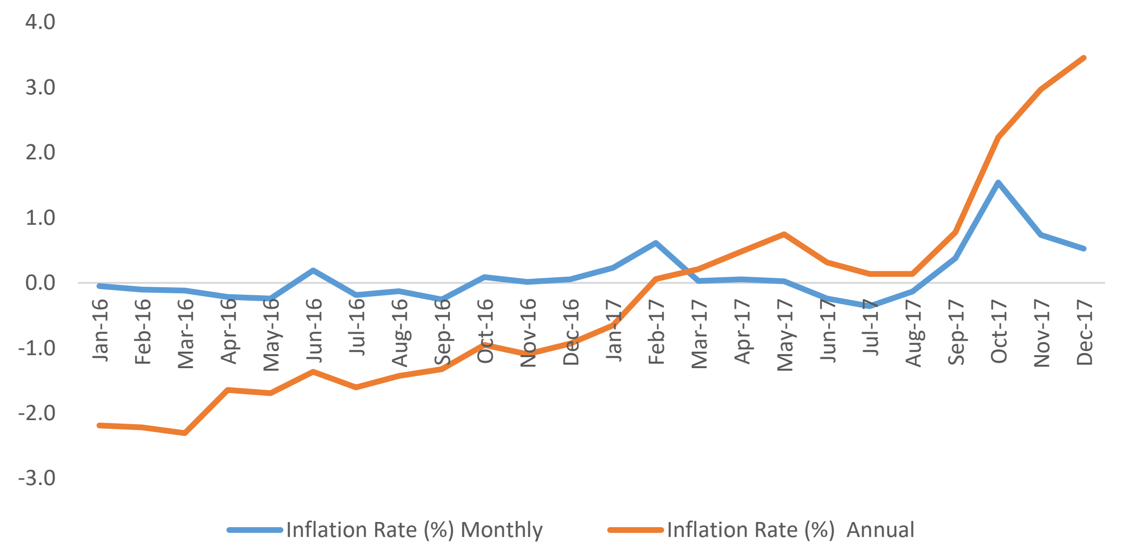
80. Annual inflation rose from 2.2% in October to 3.0% in November and further to 3.4% in December.

81. This brings annual average inflation to 0.9% against the previous year of -1.6%.

82. Month on month inflation during the quarter recorded 1.5%, 0.7% and 0.5% in October, November and December, respectively.

83. Imported commodities such as petrol and diesel, stationary non-durable household goods, goods and services for routine household maintenance experienced price increases.

Inflation Developments: Jan 2016-Dec 2017



Source: ZIMSTAT

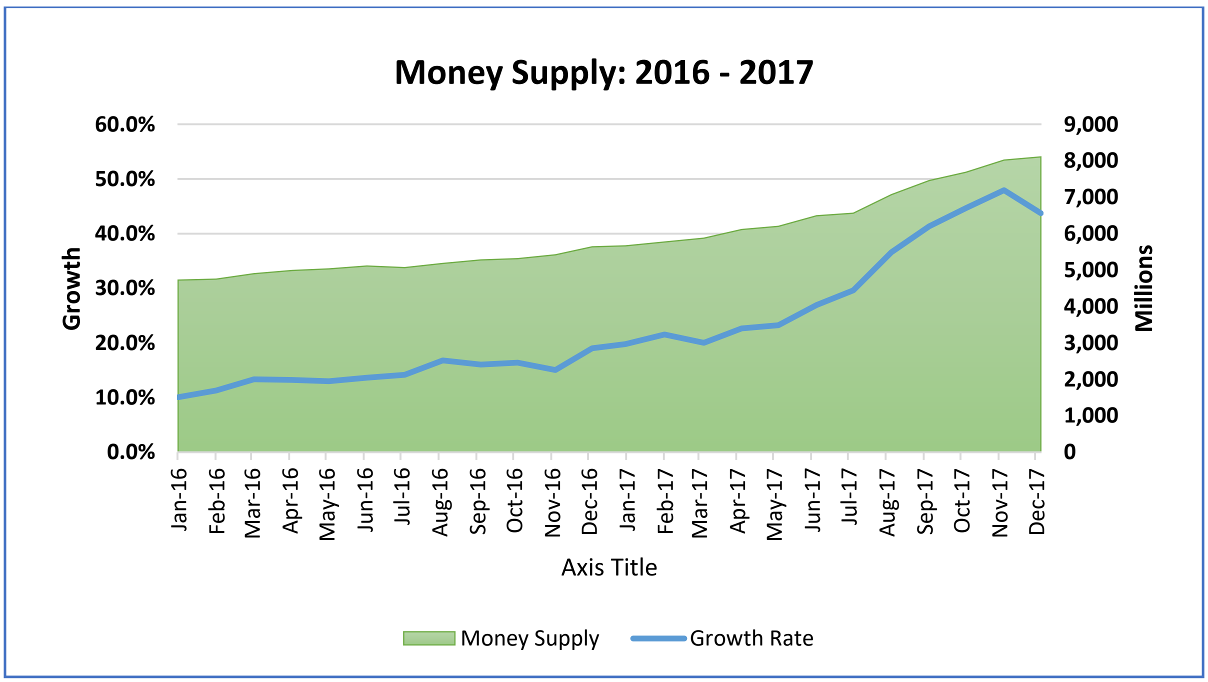
FINANCIAL SECTOR

Money Supply

84. Broad money supply which was on an upward trajectory in 2017, stood at US$8.02 billion as at 30 December 2017 registering an annual increase of 43.7% from US$5.63 billion in December 2016.

85. The increase is largely attributable to a growth of 56.29% in demand deposits, and an increase of 9.13% in negotiable certificate of deposits. However, a decrease of 4.75% in time deposits did partially offset the increase.

86. In December 2017, bond notes and coins in circulation stood at US$331.94 million, an increase of 473% from US$70.17 million in December 2016.



Source: RBZ

Domestic Credit

87. In tandem with the growth in money supply, domestic credit recorded an annual increase of 43.07% from US$7.48 billion in December 2016, to US$10.70 billion in December 2017.

88. The growth was largely due to an expansion of 73.91% in net credit to Government which stood at US$6.26 billion in 2017, up from US$3.60 billion.

89. Contrary, to the growth in net credit to government, credit to the private sector only increased marginally by 5.83% from US$3.51 billion in December 2016, to US$3.72 billion in December 2017.

90. Hence, there is an element of crowding out effect by the government on the private sector.

Stock Exchange

91. The equities market opened the last quarter of the year saddled by strong bullish sentiments.

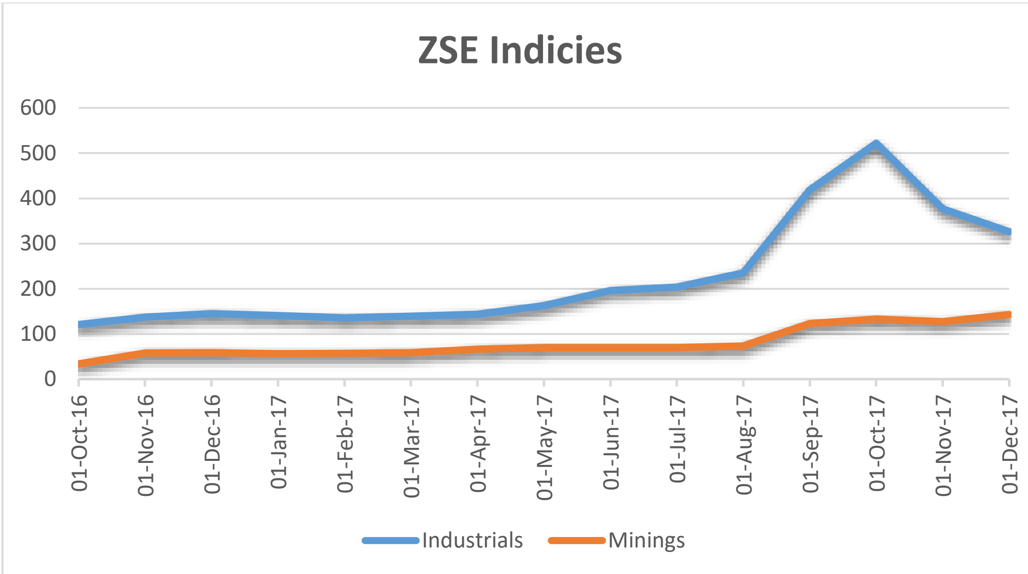
92. The industrial index was 418.4 points on 1 October 2017, and increased by 24.7% to close the month of October 2017 firmer at 521.9 points.

93. The increase was largely driven by speculation and political developments in November 2017, resulting in price correction. The index declined to 376.7 points by end of November 2017 and closed the month of December weaker at 326.04 points.

94. The mining index exhibited the same volatility, opening October 2017 at 122.6 points and gained by 8.15% to close the month at 132.5 points, before declining to close November 2017 at 126.9 points. Contrary to the industrial index, the mining index recovered in December to close 2017 at 142.4 points.

95. However, despite the losses in the last quarter of 2017, the industrial and mining indices gained 130.42% and 143.4% respectively in 2017 as equities increased due to speculation from currency risk.

96. Consequently, the total market capitalisation of the ZSE stood at US$9.58 billion as at 31 December 2017 and on 7 November 2017, it surpassed the US$15 billion mark.



Source: ZSE

EXTERNAL SECTOR

97. In the quarter, data from the RBZ, Exchange Control indicates that merchandised exports receipts stood at US$943 million against imports payments of US$793 million, giving a positive trade balance of US$150 million.

98. The export receipts were mainly driven by tobacco and minerals such as gold and chrome. On the other hand, the shortage of foreign currency and import management measures instituted by Government constrained import levels.

Merchandise Exports Receipts and Imports Payments US$ millions: 2017

	Exports Receipts	Imports Payments
January	290	271
February	231	249
March	268	265
April	194	278
May	235	373
June	170	337
July	285	254
August	299	255
September	146	264
October	360	277
November	283	250
December	300	266
Total	**3 061**	**3 340**

Source: RBZ, Exchange Control Division

99. Overall, for the whole year, merchandised exports stood at US$3.1 billion against import payments of US$3.4 billion, giving a trade deficit of US$279 million.

CONCLUSION

100. The cash and foreign currency shortages and the inflation pressures, due to unsustainable financing of the widening fiscal deficit and domestic debt during the last quarter, call for immediate interventions to avert the possible contracting of the economy in the medium term.

101. Accordingly, the measures pronounced in the 2018 National Budget are expected to enhance the economy's productive capacity, re-orient budget expenditures towards capital development programmes and improve the country foreign currency generating capacity.

102. The promulgation of the Finance Act and Appropriation Act for 2018 provide impetus to implementation of key measures.

Fiscal Policy and Advisory Services

March 2018