TREASURY QUARTERLY BULLETIN:

Jan – March 2018

Ministry of Finance and Economic Development

Table of Contents

INTRODUCTION

1. This Treasury Bulletin gives an outline of the performance of the economy during the first quarter of 2018, following presentation of the 2018 National Budget in December 2017 under the New Dispensation.

2. The New Dispensation marked a new era under which key reform initiatives and commitments are being implemented on rebuilding and transforming Zimbabwe to become an Upper-Middle Income Economy by 2030.

3. In particular, these reform initiatives are aimed at creating a conducive macro-economic environment for increased investment and growth through improving the ease of doing business, advancing the re-engagement with the international community, as well as addressing a number of fiscal challenges and other structural rigidities in the economy.

REAL SECTOR DEVELOPMENTS

4. In 2018, real economic growth is projected at 4.5%, up from an estimate of 3.7% for 2017. This positive outlook is buoyed by the positive performance in agriculture (10.7%), mining (6.1%), electricity (28.5%), as well as distribution and restaurants (7.5%).

GDP Growth Rates

	2017	2018	2019	2020
GDP by industry at market prices, constant prices	**3.7**	**4.5**	**5.6**	**6.0**
Agriculture and forestry	14.6	10.7	8.1	8.9
Mining and quarrying	8.5	6.1	7.6	8.9
Manufacturing	1.0	2.1	3.9	4.2
Electricity and water	10.7	28.5	11.9	6.6
Construction	2.2	2.1	8.1	8.4
Distribution, Hotels and restaurants	1.1	7.3	7.0	8.0
Supportive services	1.5	1.7	6.0	6.1
Transportation and communication	2.3	1.9	4.1	6.0
Financial, banking and insurance activities	0.2	1.2	9.2	6.2
Public administration, education and health	0.9	0.1	1.2	1.1
Other service activities	-1.7	-0.8	-0.2	1.0

Source: ZIMSTAT

5. The New Dispensation is providing growth impetus, which, however, is being weighed down by the shortage of foreign currency for the importation of critical raw material for production, as well as the late onset of the rains during the 2017/18 agricultural season.

Agriculture

6. In the 2018 National Budget, the agriculture sector is projected to grow by 10.7%, up from 14.7% in 2017. The growth is on account of coordinated funding interventions by Government and the private sector.

7. However, the 2017/18 agriculture season was characterized by late onset of rainfall in most parts of the country during the first half of the season. The dry spell continued during the second half of the season for the month of January and early February, while the last part of the second half experienced above normal rainfall for most parts of the country.

8. The dry spell resulted in some early planted crops in the Southern parts of the country being written off and hence, negatively impacting output for the season. However, the excessive rains received during part of the second half saw most late planted crops maturing and increased yields.

Tobacco Marketing

9. Tobacco Auction floors opened on 21 March 2018, with three auctioneers namely, Boka Tobacco Auction Floors, Tobacco Sales Floor and Premier Tobacco Auction Floors.

Tobacco Sales as at 29 March 2018

SEASONAL	TOTAL AUCTION	CONTRACT	TOTAL 2018	TOTAL 2017	% CHANGE
Mass sold(kg)	1,073,376	4,181,974	**5,255,350**	8,020,041	(34.47)
Value(US$)	2,519,224	12,020,605	**14,539,830**	18,934,337	(23)
Avg.price US$/kg	**2.35**	**2.87**	**2.77**	**2.36**	**17.2**

Source: TIMB

10. As at 29 March 2018, cumulative tobacco deliveries to the auction floors stood at 5.3 million kg valued at US$14.5 million. This is lower than the 8

million kg valued at US$18.9 million delivered to the floors during the same period last year.

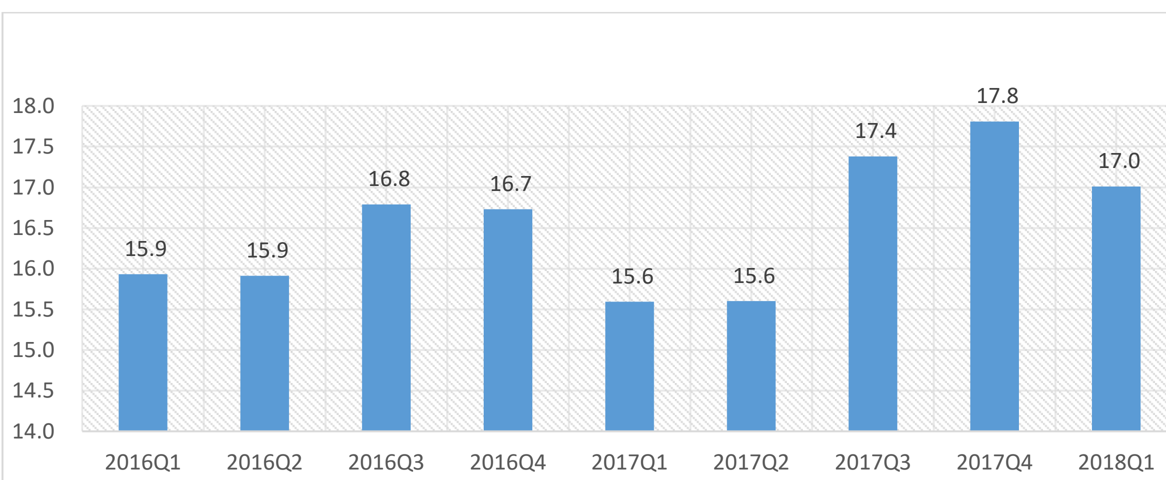
11. Opening prices were relatively higher this season due to the improved quality of crop.

Milk

12. Milk production continues to benefit from the Dairy Revitalisation Programme which has seen production rising since its introduction in 2015. As a result, milk output during the first quarter of 2018 stood at 17 million litres compared to 15.6 million litres for comparable period in 2017.

13. This level of production is, however, lower than that registered during the 4^{th} quarter of 2017 at 17.8 million litres.

Milk Production (million litres)



Source: Ministry of Lands, Agriculture and Rural Resettlement

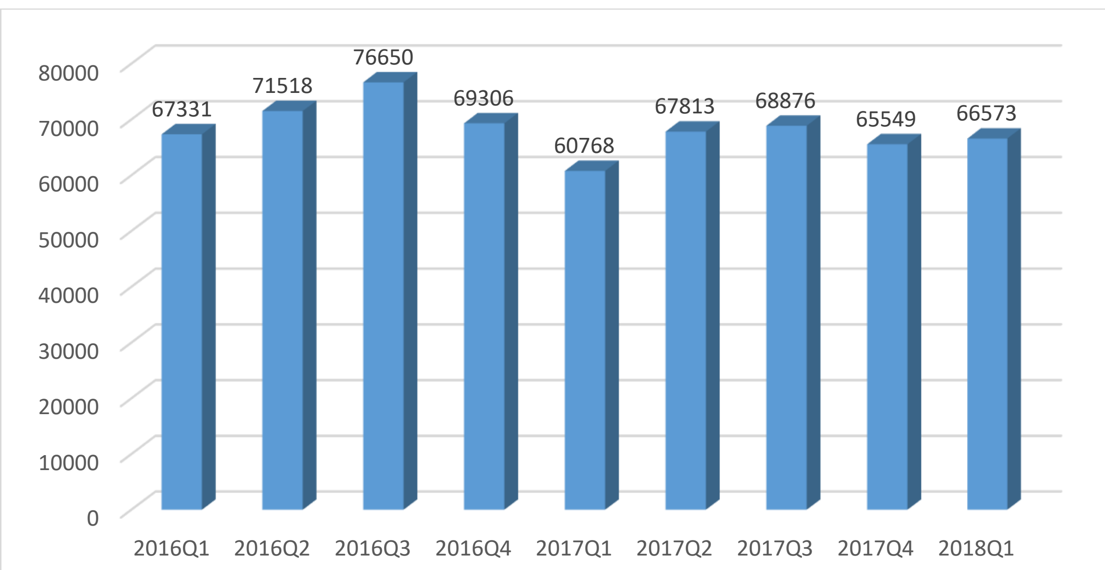
14. The decline was attributed to the outbreak of the tick-borne disease whose impact was worsened by the shortage of foreign currency to procure treatment chemicals which compromised productivity of the dairy herd.

15. Looking ahead, milk production is expected to exceed 70 million litres by year end.

Beef

16. Cattle slaughters for the first quarter of 2018 amounted to 66 573, surpassing the 2017 last quarter slaughters of 65 549 cattle.

Cattle Slaughters



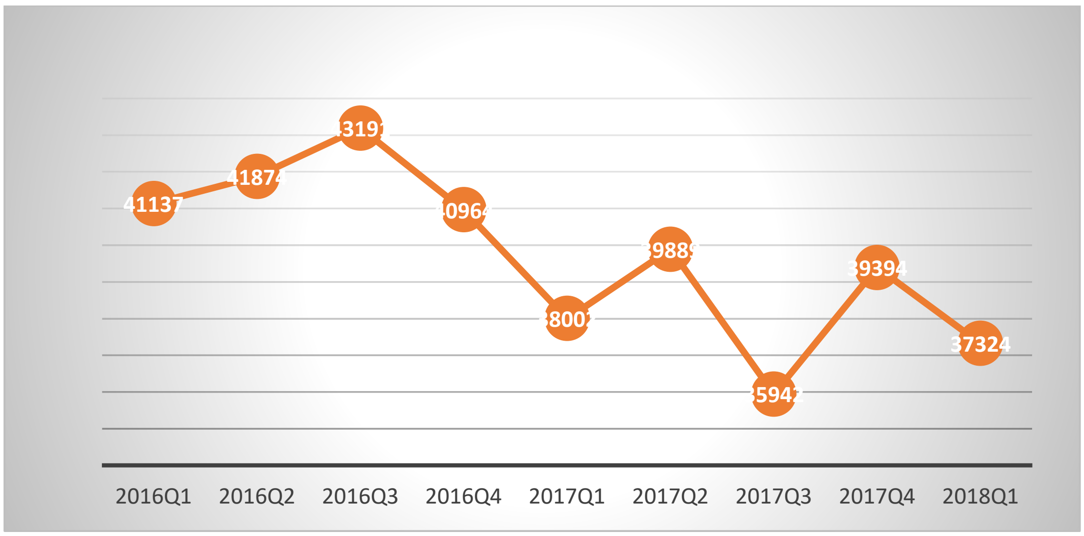
Source: Ministry of Lands, Agriculture and Rural Resettlement

17. The growth in slaughters is attributed to recovery of the beef herd following the restocking by farmers.

Pork

18. Pig slaughters have remained low with production for the first quarter of 2018 having declined by 5% to 37 324 from 39 394 slaughtered during the fourth quarter of 2017.

Pig Slaughters



Source: Ministry of Lands, Agriculture and Rural Resettlement

19. The decline in pig slaughters is attributed to seasonal dynamics, where supply and demand are usually low in the first quarter, also being compounded by viability challenges due to the rising prices of stock feeds.

Mining

20. The mining sector is expected to contribute in excess of 69% to the country's total export earnings in 2018.

21. Most minerals are expected to record increased output in 2018, compared to 2017, owing to improved power supplies, funding and retooling by some of the big mining companies. About 90% of mining firms are planning to increase output by more than 10 percent, buoyed by the increased investment in new equipment.

22. These initiatives are also benefitting from the improved operating environment in the country, which has provided better opportunities for planning and execution of mining projects.

23. The Table below shows the output in major minerals such as coal, gold, diamonds, chrome and nickel, where performance was higher during the first quarter of 2018 compared to the same period last year.

Selected Mineral Output

	2018 Budget Proj.	Jan-Mar 2018 Actual Outturn	Jan-Mar 2017 Actual Outturn
Chrome \t (000)	1,700	410	317
Coal \t (000)	4,500	655	385
Gold \kg	26,000	7,801	4,637
Platinum \kg	15 500	3,744	
Nickel \t	17,800	4,747	4,009
Diamonds \Carats (000)	3,500	898	567

Source: Ministry of Mines, Chamber of Mines, 2018.

Gold

24. Cumulative gold output for Q1 of 2018 stood at 7,801 kg, compared to 4 637 kg produced during the same period in 2017. The increase in output is being

boosted by increased production from the small scale and artisanal miners who continue to benefit from gold facilities availed by Fidelity Printers and Refiners.

Gold Production

	2017 Q1	2018 Q1
Primary producers/kg	2,554	3,045
Small Scale producers/kg	2,083	4,265
Total/Kg	**4,637**	**7,310**

Source: Ministry of Mines, Chamber of Mines

25. In the outlook, gold expansion projects being undertaken by the top 5 major producers namely Rio Zim, Metallon Gold, Freda Rebecca and Blanket mines are expected to increase output by between 10% and 15% during the year.

Platinum

26. Platinum output totalled 3 744 tons during the first quarter of 2018, which is higher than the 3 552 tons recorded during the comparable period in 2017.

27. However, key platinum producers are scheduled to undertake major maintenance of plant and equipment across all portals, as well as redevelopment of shafts which is expected to result in a marginal loss in platinum production in 2018.

Diamonds

28. Diamond output jumped to 897 660 carats during the first quarter of 2018, up from 567 024 carats produced during the same period in 2017.

29. The increase in diamond production was on the back of improved operational efficiencies and production effectiveness on conglomerate mining, particularly at the Zimbabwe Consolidated Diamond Company (ZCDC).

30. ZCDC is planning to commission a 450 tonne per hour (TPH) conglomerate crushing plant and new equipment which include 52 earthmoving vehicles.

31. In addition, other mining and exploration equipment partly financed from the Government's US$80 million injection is also set to be commissioned by mid-2018.

32. This is expected to boost diamond output during the full year 2018.

Chrome Ore

33. Chrome ore output stood at 409 826 tons in the first three months of 2018, which is an improvement from the 316 625 tons produced during the comparable period in 2017.

34. The increase in chrome ore production was largely on account of a surge in the number of players in the sector following the re-distribution of the claims

surrendered by ZIMASCO to Government, supported by anticipated firming prices for both chrome ore and ferrochrome, which are expected to reach the peak in May 2018.

International Mineral Prices

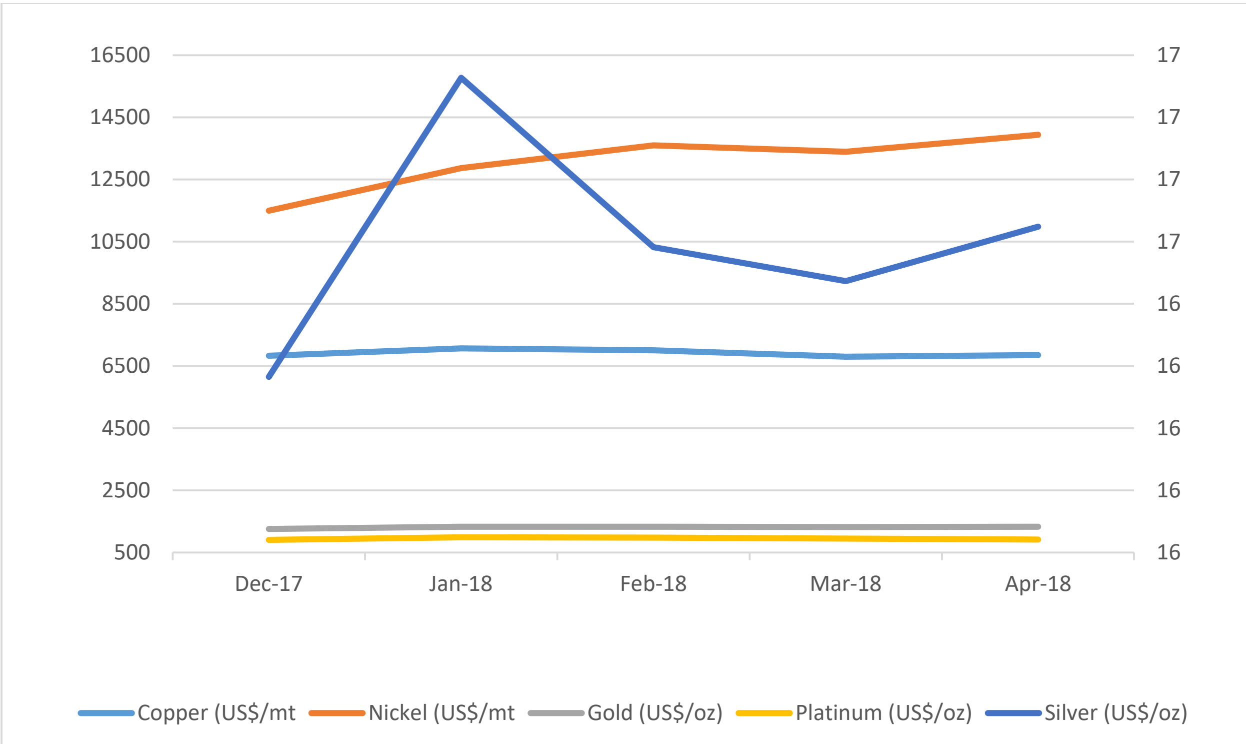
35. International prices for major minerals such platinum, gold, nickel and palladium were on a recovery path during the first quarter of 2018 and the upward trend is expected to be sustained in the medium term.

International Prices for Selected Minerals

	Jan-18	Feb-18	Mar-18
Copper (US$/mt)	7,066	7,007	6,799
Nickel (US$/mt)	12,865	13,596	13,393
Gold (US$/oz)	1,331	1,331	1,325
Platinum (US$/oz)	990	987	955
Silver (US$/oz)	17	17	16

Source: World Bank

International Prices for Selected Minerals



Source: World Bank

36. In the outlook, metals' prices are projected to increase by 9% in 2018 due to improved demand. Prices for nickel, in particular, are anticipated to remain 30% higher than in 2017 as initially projected.

Manufacturing

37. The manufacturing sector is being anchored by sub sectors such as foodstuffs, tobacco, textiles and ginning, clothing & footwear, paper, printing and publishing, as well as non-metallic minerals products which have registered some positive performance during the first quarter of 2018.

38. These subsectors are benefitting from implementation of reform measures under the Ease of Doing Business reforms aimed at improving industry competitiveness and the renewed investor confidence.

Manufacturing Production Indices

Manufacturing	2016	2017	2018	2019	2020
Foodstuffs	100.0	101.0	105	110	115
Drinks, Tobacco and Beverages	97.8	98.5	100	105	110
Textiles and Ginning	78.0	80.0	85	87	88
Clothing and Footwear	95.0	95.0	97	99	100
Wood and Furniture	96.2	98.2	99	100	105
Paper, printing and Publishing	90.4	91.0	95	95	95
Chemical and Petroleum Products	87.4	88.0	88	92	100
Non metallic mineral products	144.0	143.2	145	147	150
Metals and Metal products	66.5	70.0	71	76	80
Transport, Equipment	66.0	66.0	67	68	69
Other manufactured goods	66.7	66.7	67	68	69
Manufacturing Index	90.7	91.6	93.5	97.1	101.3
Growth Rate	**0.9**	**1.0**	**2.1**	**3.9**	**4.2**

Source: ZIMSTAT

39. The sector has also seen the commissioning of new manufacturing plants during the first quarter of 2018, including the US$3.5 million Splash Paints and Plastic plant, US$30 million Pepsi Plant, among other new investments.

40. However, the potential of the manufacturing sector is constrained by liquidity and viability challenges, as well as foreign exchange shortages required to import new equipment for re-tooling and critical raw materials.

Tourism

41. There was a 15% growth in arrivals in the first quarter of 2018 at 554 417 compared to 480 510 in 2017 as shown in the table below.

Arrivals by Source Market

Source Region	2018Q1	2017Q1	Change	
Africa	444,907	401,079	11%	▲
America	24,859	23,298	7%	▲
Asia	27,929	13,386	109%	▲
Europe	45,863	35,381	30%	▲
Middle East	2,155	1,526	41%	▲
Oceania	8,704	5,840	49%	▲
GRAND TOTAL	554,417	480,510	15%	▲

Source: Zimbabwe Tourism Authority

42. Receipts, on the other hand, grew by 20% from US$156 million during the first quarter of 2017 to US$190 million during the first quarter in 2018, spurred by a rebound in overseas source markets.

Occupancy Rates

43. Occupancy rates during the first quarter of 2018 were positive for all regions, except Masvingo that registered a 15% decline from 49% in 2017 to 34% in 2018. Harare, Bulawayo and Victoria Falls, with a combined market share of 64% of the total room (6 483) and bed (12 772) capacities in the country registered positive growth during the period under review.

44. Victoria Falls recorded an average occupancy of 44% in March 2018 up from 37% in January 2018 and the highest in the last 5 years. This growth was spurred by international arrivals with 75% of the occupancies in Victoria Falls being foreign tourists, who are largely business and leisure tourists.

Room Occupancy Rates

Region	Room Capacity	Room Occupancy		
		2018	2017	Change
Harare	2 371	62%	50%	12%
Bulawayo	785	46%	44%	2%
Victoria Falls	1126	44%	37%	7%
Mutare/Vumba	537	43%	29%	14%
Nyanga	244	34%	20%	14%
Midlands	314	26%	26%	0%
Masvingo	190	34%	49%	-15%
Kariba	447	37%	28%	9%
Hwange	293	28%	16%	12%
Beitbridge	176	30%	11%	19%

Source: Zimbabwe Tourism Authority

45. For the rest of the year, tourism is expected to record gains, buoyed by the 'Zimbabwe is Open for Business' campaign. Renewed interest in business opportunities and investments in Zimbabwe complimented by marketing efforts and improved destination image are expected to provide a platform for tourism and economic growth.

Energy

46. Electricity supply from the country's main stations recorded a slight improvement, with total electricity generated amounting to 1,649.55 GWh against the 2017 outturn of 1,610.32 GWh.

47. The performance, however, was below the target of 1,741.87 GWh.

Electricity Generated and Sent Out

Plant	2017	2018		
	Q1 Actual	Q1 Actual	Q1 Target	Variance (%)
Hwange (MW)	276.31	363.01	382.63	-5.13
Energy - GWh	596.83	784.11	826.49	-5.13
Kariba (MW)	454.21	383.91	363.68	5.57
Energy - GWh	981.09	829.25	785.54	5.57
Harare (MW)	13.70	7.71	22.97	-66.45
Energy - GWh	29.60	16.65	49.61	-66.45
Munyati (MW)	-0.02	5.55	22.74	-75.61

Plant	2017	2018		
	Q1 Actual	**Q1 Actual**	**Q1 Target**	**Variance (%)**
Energy - GWh	-0.04	11.98	49.12	-75.61
Bulawayo (MW)	1.32	3.50	14.40	-75.70
Energy - GWh	2.84	7.56	31.10	-75.70
Total – Capacity (MW)	**801.82**	**763.68**	**806.42**	**-5.30**
Total Energy - GWh	**1,610.32**	**1,649.55**	**1,741.87**	**-5.30**

Source: ZPC

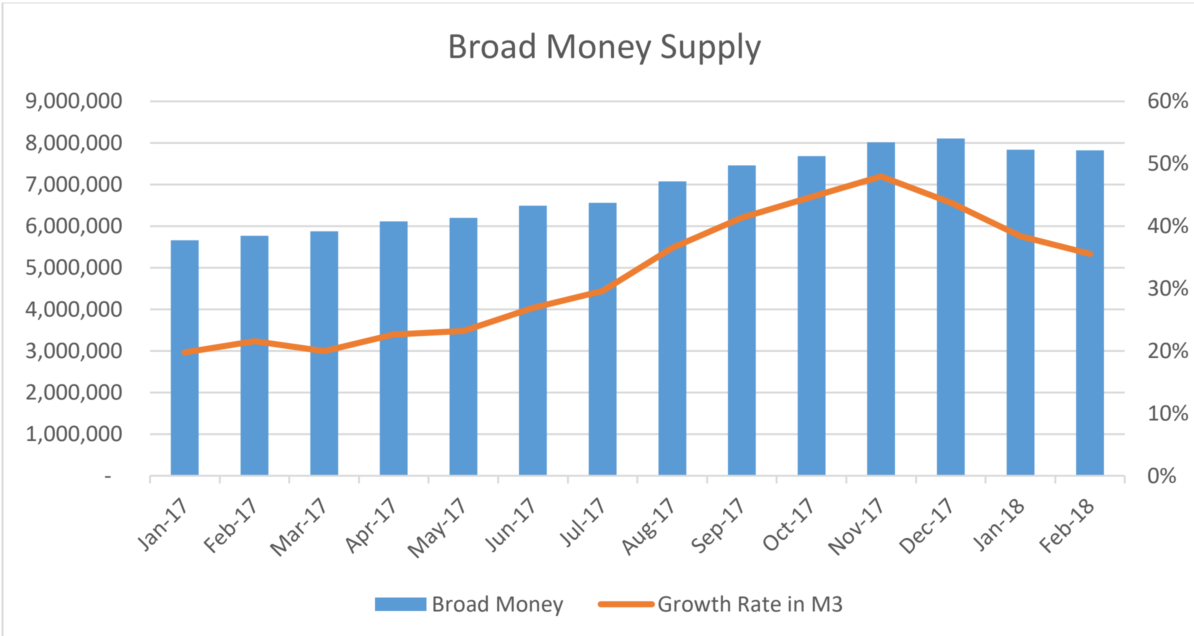
48. The improvement in generation was on account of a successful major overhaul of Unit 6 at Hwange, which saw output increasing to a maximum of 180MW. The commissioning of Kariba South Extension also gave rise to additional 300MW to the national grid.

49. The good performance at Kariba power station was however, counteracted by numerous forced outages experienced at Hwange and the Small Thermal power stations.

FINANCIAL SECTOR

50. Broad Money supply registered a 35.9% increase to US$7.9 billion in March 2018, up from US$5.88 billion in March 2017.

51. The increase was largely due to an increase in transferable deposits of 46.5% although other short term deposits offset the increase with a decline of 2.5%.



Source: Reserve Bank of Zimbabwe

Domestic Credit

52. The increase in broad money provided growth in domestic credit, which recorded an annual increase of 35.9% from US$7.7 billion in March 2017, to US$11.0 billion in March 2018.

53. The growth was largely due to an expansion of 72.2% in net credit to Government which stood at US$6.61 billion in March 2018, up from US$3.8 billion in March 2017.

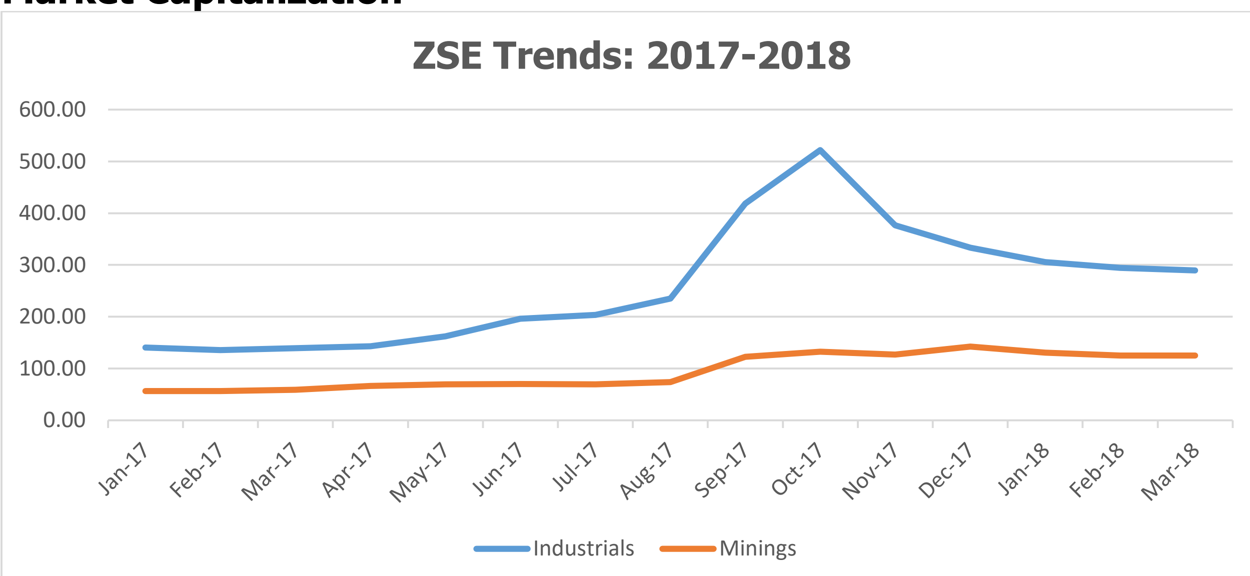
54. Contrary, to the growth in net credit to government, credit to the private sector increased marginally by 5.89% from US$3.49 billion in March 2017 to US$3.70 billion in March 2018.

Zimbabwe Stock Exchange

55. The equities market continued to trade soft in the red for the greater part of the first quarter as the market was self-correcting from strong speculative sentiments experienced in the fourth quarter of 2017.

56. The industrial index opened the first quarter of 2018 at 333.02 points and declined by 13.1% to close the month of March 2018 weaker at 289.3 points.

Market Capitalization



Source: Reserve Bank of Zimbabwe

57. Similarly, the mining index declined by 12.3%, having opened the first quarter at 142.4 points and closed softer at 124.91 points.

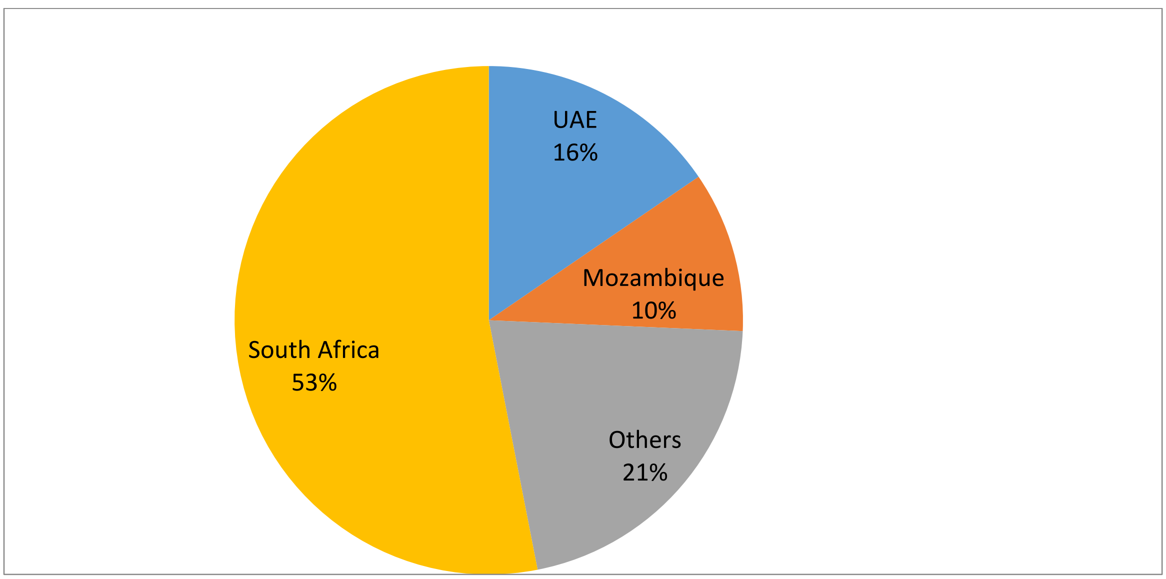
58. Accordingly, total market capitalization of the ZSE, stood at US$8.3 billion in March 2018 down from US$9.56 billion at the beginning of January 2018.

EXTERNAL SECTOR

Exports

59. During the first quarter of 2018, the country's merchandise export receipts stood at US$886.1 million, mainly from gold, nickel mattes and nickel ores & concentrates, flue cured tobacco and ferrochrome.

Exports by Country Destinations



Source: ZIMSTAT

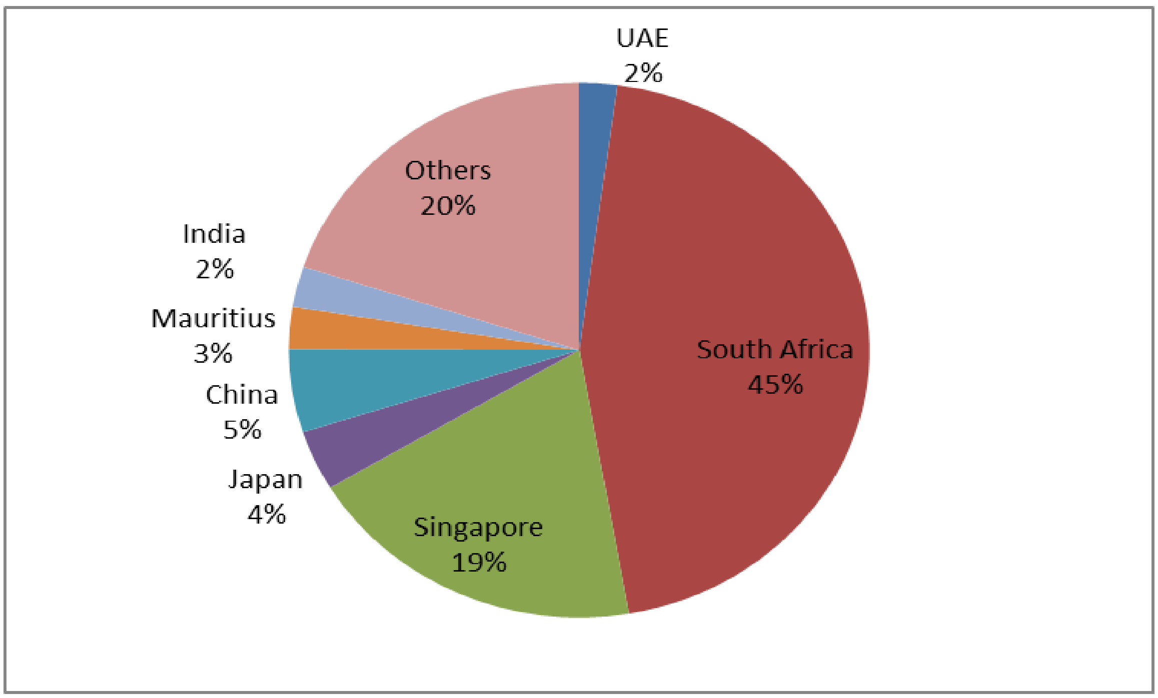
60. The main export destinations were South Africa, United Arab Emirates and Mozambique, constituting 51%, 16%, and 10%, respectively as shown in the chart above.

61. Exports to our major trading partner, South Africa, comprised of mainly platinum group of metals (PGMs), gold and nickel.

Imports

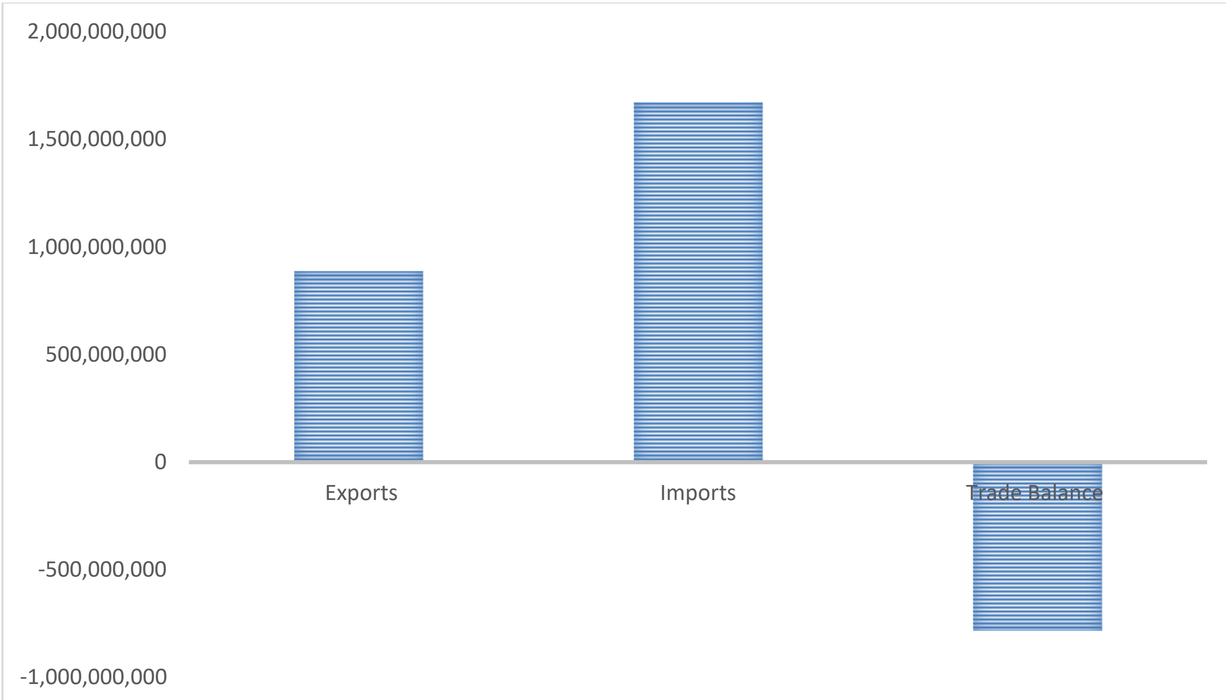
62. Total merchandise imports stood at US$1,670.3 million during the first quarter of 2018. Fuels, cereals, fertilizers and medicines remain the country's major imports.

63. The major import sources were South Africa, Singapore, China, Japan, Mauritius and India, contributing 45%, 19%, 5%, 4%, 3%, 2%, respectively with other countries contributing 20% as illustrated in the chart below.



Source: ZIMSTAT

64. As a result, the trade deficit stood at US$784.3 million during the period under review.



Source: ZIMSTAT

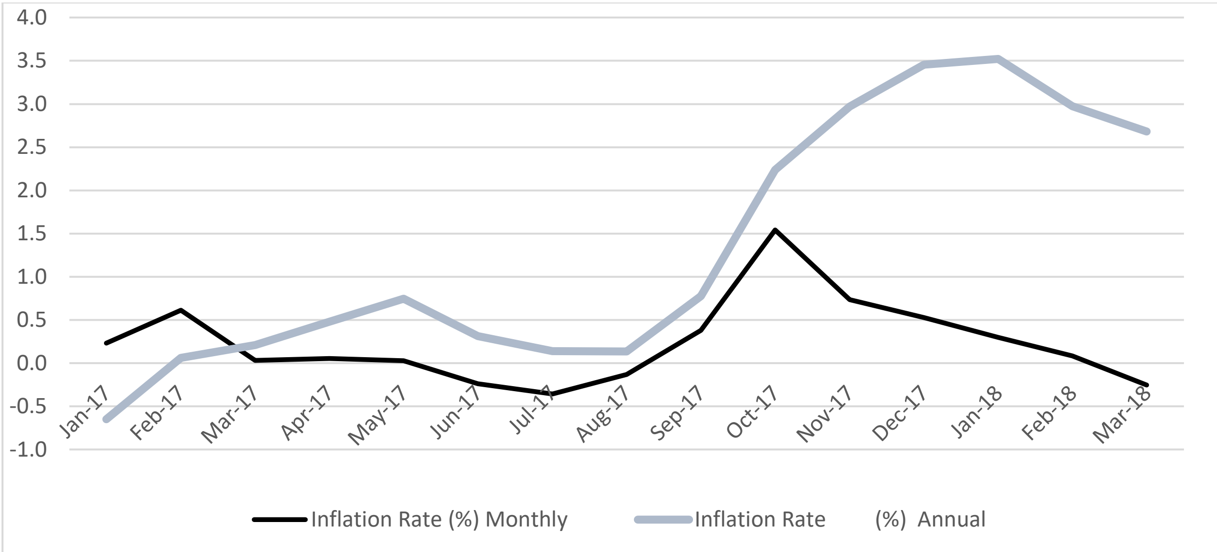
INFLATION

65. During the first quarter of 2018, the general price level in the economy was kept under control and the inflationary pressures lost traction as the quarter progressed. This was largely attributed to rising confidence of both investors and consumers, as well as shrinking of parallel market exchange premiums.

66. Annual inflation which recorded 3.5% in January slowed down to 3.0% and 2.7%, in February and March, respectively.

67. Similarly, month on month inflation went down from 0.3% to 0.1 and -0.3%, in January, February and March, respectively.

Month-on-month Inflation.



Source: ZIMSTAT

68. In the outlook, upside risks related to growing demand for wage increases in both private and public sectors, together with the surge in international oil prices will likely fuel some inflationary pressures.

FISCAL PERFORMANCE

69. Revenue collections for the first quarter of 2018 were above targets, while expenditures incurred overruns in both the recurrent and capital outlays.

70. Financing of such expenditures was entirely from domestic market borrowing, a situation which perpetuates the private sector crowding out effect and also promotes financial instability.

Revenue

71. Cumulative tax and non-tax revenue collections for the first quarter of the year amounted to US$1.16 billion, against a target of US$1.08 billion, resulting in a positive performance of US$77.2 million or 6.7%.

72. This performance represents an increase of 33.4% from the collections of US$869.2 million recorded during the same period in 2017 and a 9.6% increase compared with the $1.058 billion collected in the fourth quarter of 2017.

Revenue (US$ Million)

	Actual	Target	Variance (%)
Total Revenue	1 160.0	1 082.4	6.7
Tax Revenue	1 105.8	1 029.6	6.9
Non tax Revenue	53.8	52.7	2.0

Source: Ministry of Finance and Economic Development

73. Notably, both Tax and Non-tax revenue recorded positive variances of 6.9% and 2.0%, respectively.

74. Proportionally, tax revenue continues to account for the greater percentage of total revenues at 95.4% of total revenues, while non-tax revenue contributed 4.6%.

75. Improved tax revenues during the first quarter of 2018 was attributable to improved business confidence under the "New Dispensation", higher economic activity and inflation that continued in the positive range with year-

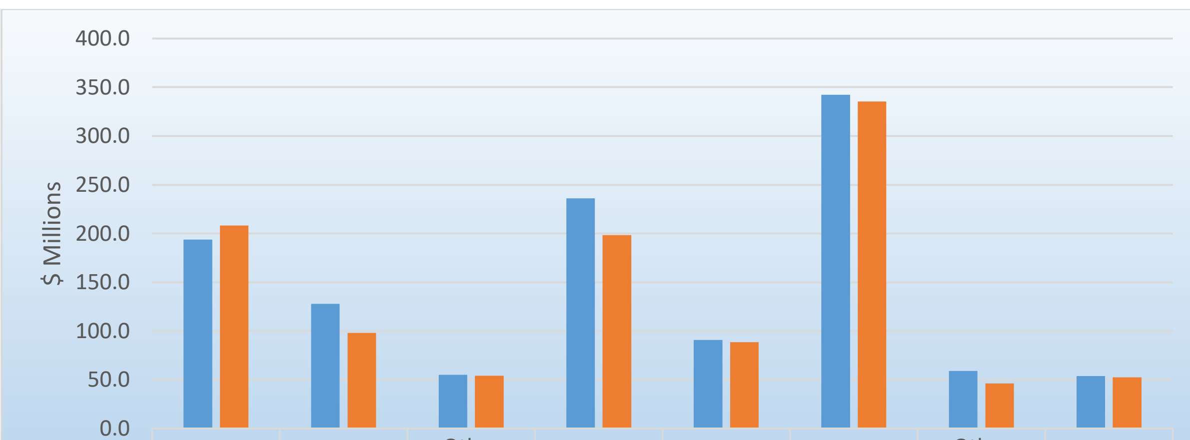
on-year inflation starting the year at 3.5% in January, 3.0% in February and 2.7% in March.

76. Non-tax revenue, amounted to US$53.8 million for the period January to March against a target of US$52.7 million, performing above the target by 2% (US$1.1 million).

Revenue Heads' Contribution

77. All revenue heads performed above the targets save for Individual Income Tax. PAYE missed the target by US$14.3 million representing 7.4% negative variance as indicated on the graph below.

Performance of Revenue Heads



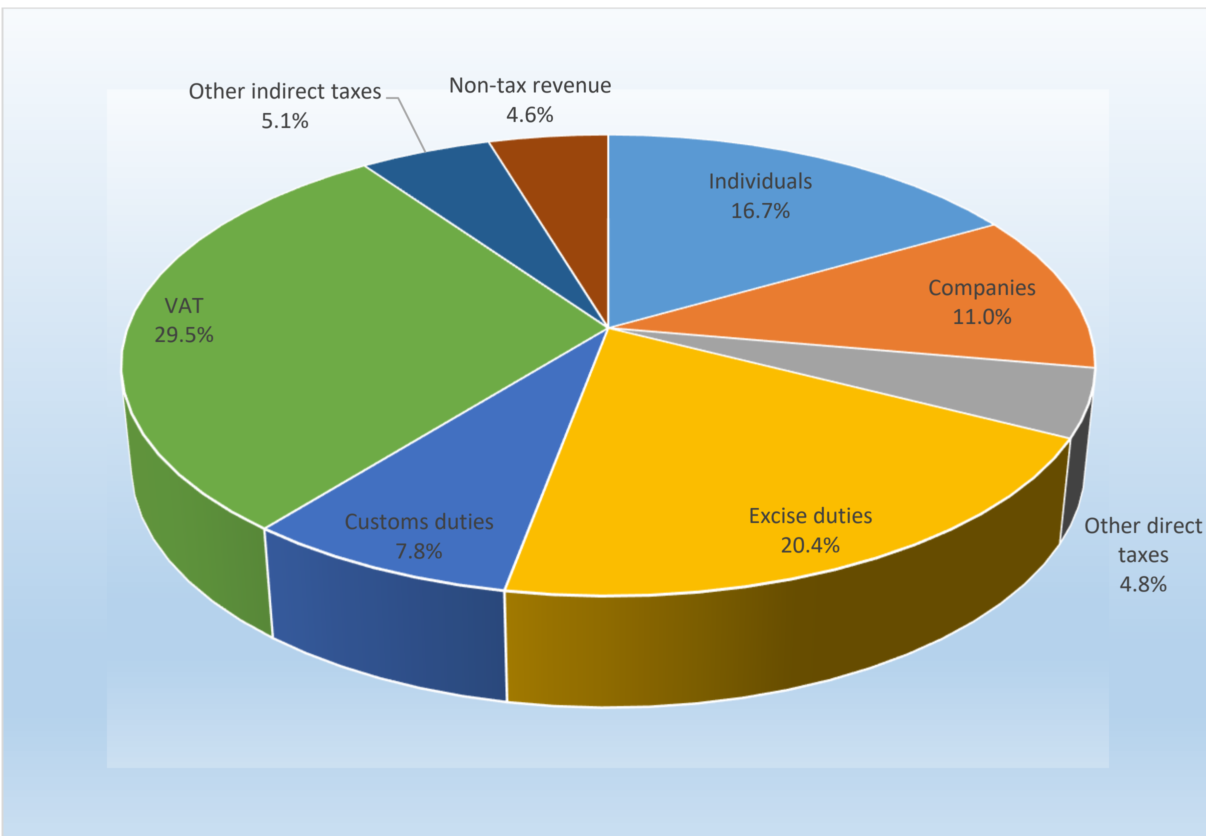
	Individuals	Companies	Other direct taxes	Excise duties	Customs duties	VAT	Other indirect taxes	Non-tax revenue
Actual	193.9	128.1	55.3	236.2	90.8	342.4	59.1	53.8
Target	208.2	98.0	54.4	198.3	88.8	335.5	46.5	52.7

Source: Ministry of Finance & Economic Development

78. The major contributors to revenue collections continued to be VAT, at 29.5%, followed by Excise Duty, 20.4% and Personal Income Tax, 16.7%. Companies' tax collections contribution to total revenue dropped from 14.9% in the fourth quarter of 2017 to 11% in the first quarter of 2018. However, it maintained its fourth position in terms of its contribution to total revenues.

79. 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

80. Budget expenditures over the period under review amounted to US$1.38 billion, against the planned US$1.11 billion.

81. Resultantly, expenditure over-runs of US$273.2 million were incurred, mainly due to over-expenditure on Capital & Net Lending (US$157.9 million) and Operations & Maintenance (US$97.5 million).

Expenditure (US$ Million)

	Actual	Target	Variance (%)
Total Expenditure & Net Lending	1 385.0	1 111.7	-19.7
Employment Costs	836.1	819.6	-2.0
Operations & Maintenance	218.7	121.2	-44.6
Interest	47.2	45.8	-2.9
Capital & Net Lending	283.0	125.2	-55.8

Source: Ministry of Finance & Economic Development

82. Subsequently, the 2018 first quarter expenditure overrun was higher than the US$105.6 million overrun recorded during the same period in 2017.

Employment Costs

83. Expenditure on employment costs for the first quarter to March 2018 amounted to US$836.1 million, against a target of US$819.6 million, resulting in an expenditure overrun of US$16.9 million.

Employment Costs (US$ Million)

	Actual	Target	Variance
Total Employment Costs	**836.1**	**819.6**	**-16.5**
Civil Service	560.3	549.2	-11.1
Grant Aided Institutions	117.2	111.8	-5.4
Pension	158.6	158.6	0

Source: Ministry of Finance & Economic Development

Operations and Maintenance

84. Operations and Maintenance costs amounted to US$218.7 million, against planned expenditures of US$121.2 million, exceeding the quarterly target by US$97.5 million but lower than the preceding quarter expenditures of US$418.7 million.

85. 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

86. A total of US$47.2 million was expended entirely on interest related to domestic debt.

87. This reflects growing reliance on domestic sources for budget deficit financing in the face of limited external financing.

Capital Expenditures and Net Lending

88. Cumulative Capital expenditures and net lending amounted to US$283.0 million, against a target of US$125.2 million, resulting in an over-expenditure of US$157.9 million.

89. The overrun in capital expenditure was mainly due to payments towards capital transfers at US$222.8 million against the US$42.3 million quarterly target, as well as transfers towards the purchase of inputs under the "Command" Agriculture programme.

90. Net lending at US$52.6 million consisted of equity participation and short term lending.

CONCLUSION

91. The macro-economic developments during the first quarter of 2018 point to improved economic performance in most sectors of the economy, with some gains in capacity utilisation, bolstered by positive sentiments coming from the industrialists.

92. However, the shortage of foreign currency remain a major obstacle to sustained growth of business operations.

Fiscal Policy and Advisory Services Department

Ministry of Finance and Economic Development

June 2018