TREASURY QUARTERLY BULLETIN:

April– June 2018

Ministry of Finance and Economic Development

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INTRODUCTION

1. During this second quarter, the economy saw some investors adopting a '*wait and see attitude*' pending the outcome of the 2018 harmonised elections.

2. Notwithstanding this, a number of investors continued to make investment enquiries with some taking strategic positions in a number of sectors.

3. As a result, investment applications during the period amounted to US$14.8 billion, with a potential of creating 14 290 job opportunities. The energy sector tops the list with US$10.2 billion, followed by services with US$2.2 billion, and mining with US$881.6 million.

4. The new Government continued to push forward its reforms on rebuilding of the economy and opening the country for business. This has seen a number of projects and programmes being implemented through the 100-Days Rapid Results Initiative in agriculture, water, roads, ICT, health, education and other sectors of the economy.

5. The private sector also undertook considerable recapitalisation and resuscitation of formerly distressed companies, benefiting from the restoration of confidence which had gained momentum, and hence supporting substantial economic activity in almost all sectors of the economy.

GDP Growth

6. The economy is therefore, expected to surpass the initial growth projection of 4.5% in 2018, to reach about 6.3%, on account of more than anticipated performance across the key sectors namely agriculture, mining, manufacturing, tourism, construction among others.

7. Consequently, revenues performed well exceeding targets by US$225 million, during the quarter. However, the rising fiscal deficit emanating from expenditure overruns, in both the recurrent and capital expenditures and net lending, continued to pose significant risks to the overall economy.

8. Financing of the rising deficit was entirely from the domestic market, a situation which continues to threaten private sector borrowing and financial stability.

9. This phenomenon also contributed to the increase in inflation reaching 2.9% by June 2018.

Sector Developments

Agriculture

10. The second quarter of 2018 marked the end of the 2017/18 agriculture season. The season was, however characterised by less favourable weather

conditions during the first half, and a mid-season dry spell in the southern parts of the country which culminated in reduction of area planted, with crop write offs in some cases.

11. However, normal to above normal rainfall experienced mainly in the Northern part of the country between February and April, partially offset the crop damage caused by late onset of rains.

12. Consequently, total grains output stood at 1.8 million tons, against national requirements, of about 2 million tons, for both humans and livestock. The gap will however, be offset by the existing stock of grains from the previous season.

13. Maize output Production of cash crops, such as cotton, tobacco and soya beans, was considerably high due to timeous planning and financing, coupled with average rainfall season.

Agricultural Production Statistics ('000 tons):2017-202

	2017	2018
Tobacco (flue cured)	190	252
Maize	2,155	1700
Beef	72	77
Cotton	75	130
Poultry	131.0	113
Groundnuts	139.0	127
Wheat	160.0	132
Dairy (m lt)	83.0	90
Sorghum	182.0	78.0
Overall Growth	**14.8**	**12.4**

Source: Ministry of Agriculture and Ministry of Finance

14. In view of the above, the agriculture sector is projected to grow by 12.4% in 2018 from the initial projection of at the beginning of the year.

Tobacco

15. Tobacco deliveries to the auction floors stood at 221.8 million kgs at a price of US$2.94 as at 3 July 2018 compared to 167.7 million kgs sold during the same period last year.

16. As a result, US$647 million was realised during this period, up from US$492 million. However, prices this year were slightly lower by 0.6%, attributable to increase in tobacco supply.

Tobacco Deliveries as at 3 July 2018: 2017 -2018

SEASONAL	TOTAL AUCTION	CONTRACT	TOTAL 2018	TOTAL 2017	% CHANGE
Mass sold(kg)	32,534,457	189,294,943	**221,829,400**	167,736,978	32
Value(US$)	90,383,359	556,670,071	**647,053,430**	492,374,071	31
Avg.price US$/kg	**2.78**	**2.94**	**2.92**	**2.94**	**(0.6)**

Source: TIMB

17. As a result, tobacco output for the year is projected to reach 252 million kg, up from an initial projection of 200 million kg and the previous year's output of 190 million kgs.

18. The surge in output is attributed to the ongoing capacitation of farmers through training, as well as increased financial support, compounded by favourable rain condition.

Cotton

19. Cotton deliveries stood at 49 136 445 kgs as at 27 June 2018 compared to 20 347 427 kgs sold during the same period last year. The bulk of deliveries went to Cottco in line with the support provided to farmers by Government.

Seed Cotton Deliveries as at 27 June 2018

Company	Seed cotton intake as at 30 June 17 (kg)	Seed cotton intake as at 27 June 2018 (kg)
ETG Parrogate	1 260 688	723 200
Alliance Ginneries	1 776 224	22 218
Olam	1 056 206	-
Cottco	14 047 005	43 333 185
Grafax	2 163 836	0
China Africa	43 468	875 241
Southern Cotton	-	4 182 601
Total	**20 347 427**	**49 136 445**

Source: Agricultural Marketing Authority (AMA)

20. Output for the season is expected to reach 137 000 tons, up from an initial projection of 130 000 tons, largely driven by increased input support by Government.

Wheat

21. By the end of the winter wheat planting in June, about 34 000 hectares of land was under the crop down from 44 000 planted during the previous period.

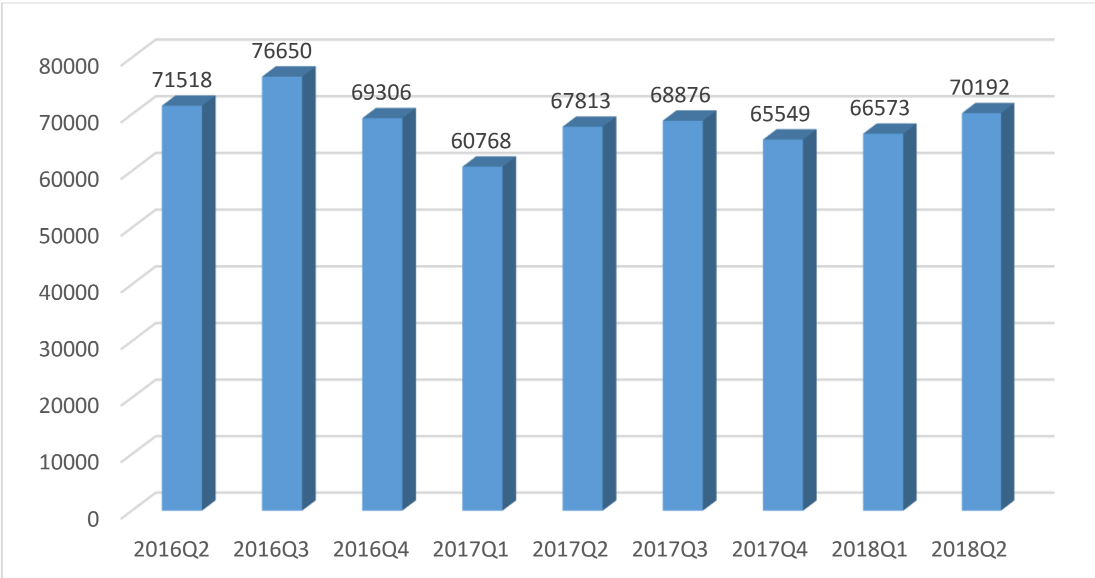
22. Of this, about 22 000 hectares was under the Command Agriculture Programme while the remainder was through private initiative.

23. As a result, output for the year is expected to significantly decline from previous year's output of 160 000 tons.

Beef

24. Cattle slaughters stood at 70 192 during the second quarter up from 66 573 in the first quarter of 2018. This level of output is also higher than second quarter of 2017 of 67 813.

Cattle Slaughters



Source: Ministry of Agriculture

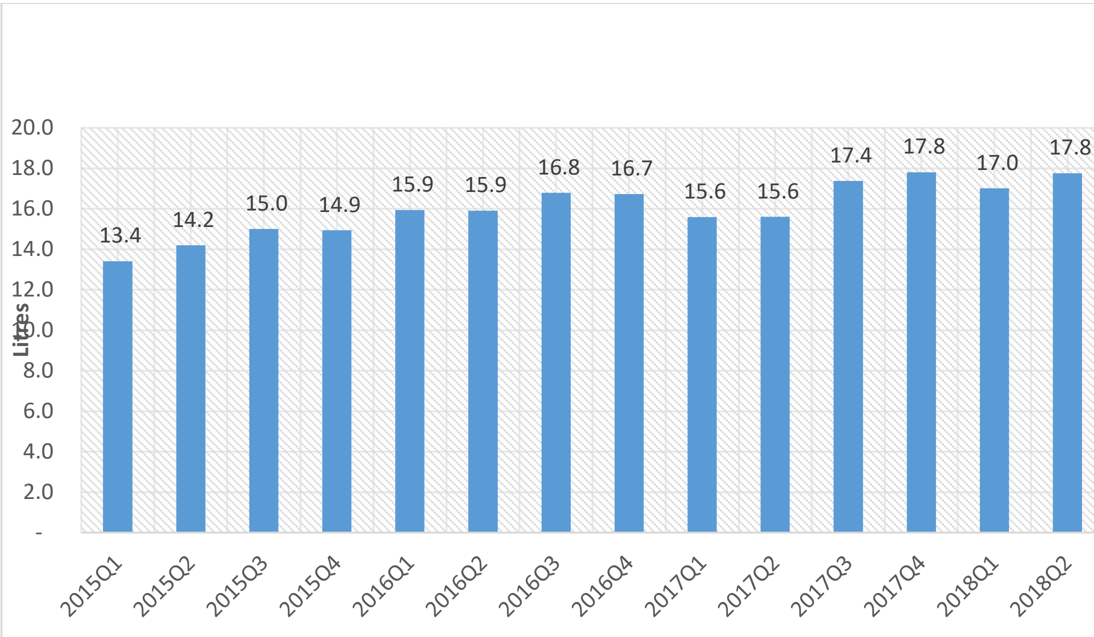
25. Beef production is being affected by the outbreaks of the Foot and Mouth and tick borne diseases which is constraining the movement of cattle and reducing the number of cattle available for slaughter.

Dairy

26. Milk output increased by 800 000 litres in the second quarter, from 17 million litres in the first quarter of 2018. Monthly average production has now increased to 6 million litres, from 5.7 during the first quarter.

27. This results in cumulative milk output for the first half of the year of 17.8 million litres.

Milk Production (million litres)



Source: Ministry of Agriculture

Poultry

28. During the period April to June 2018, broilers slaughtered decreased by 11% to 2.1 million from 2.3 million birds during the first quarter.

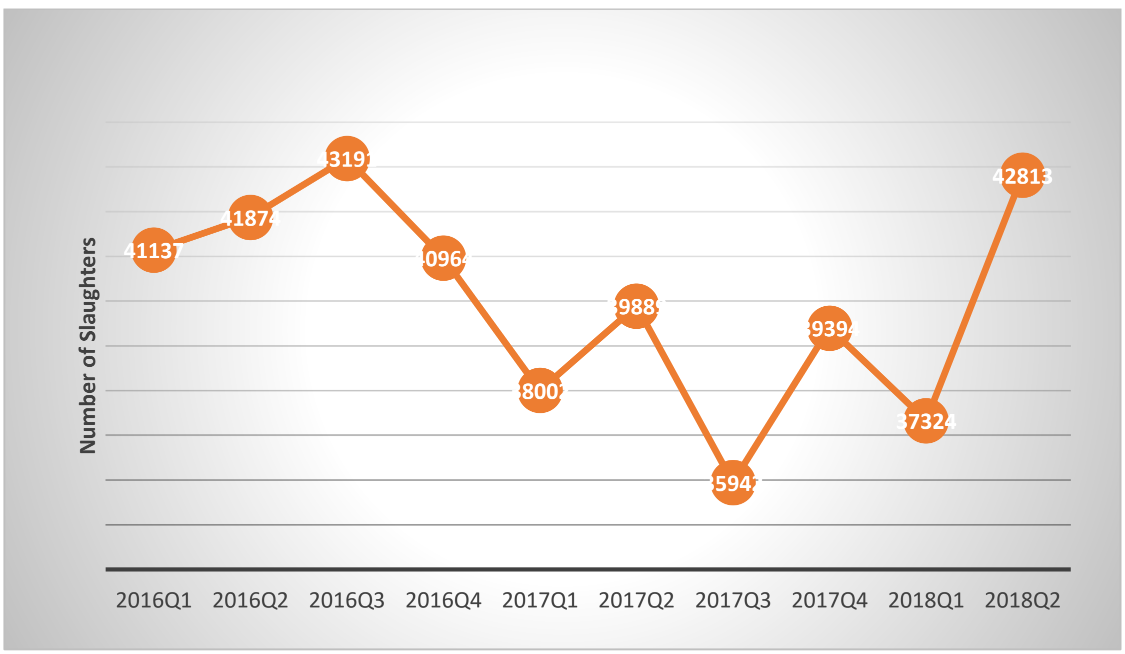
29. However, table egg production recovered by the same magnitude to 3 million dozens during the same period. Production of table eggs is recovering following the outbreak of Avian Flu virus which resulted on destocking of the breeding stock.

30. Poultry industry is expected to continue on a recovery path as producers continue to restock their birds.

Pork

31. Pig slaughters increased to 42 813 during the second quarter, from 37 324 slaughtered in the first quarter of 2018.

Pig Slaughters



Source: Ministry of Agriculture

32. The recovery is attributable to recovery of the sector following droughts of previous years which had pushed out small scale farmers out of business. It

is also benefitting from increased economic activity which has increased demand.

33. Pigs slaughtered are expected to continue to increase as the year progresses.

Mining

34. Strong performance was recorded for gold, diamond, chrome and coal while other key minerals from platinum group of metals (PGMs) underperformed during the second quarter of 2018 compared to the same period in 2017.

35. The following table shows quarterly production developments for selected minerals in 2017 and 2018.

Mineral Production: Q2 2017 and 2018

	Q2 2017	Q2 2018	Q1 2018	Cumulative Jan-June 2018
Gold (kg)	5 784	10 373	7 741	18 113
Chrome (tonnes)	352 239	503 879	411 446	915 325
Coal (tonnes)	909 124	1 041 043	880 477	1921 520
Nickel (tonnes)	4 551	4 018	4 747	8 765
Platinum (kg)	3 693	3 438	3 744	7 182
Palladium (kg)	3 047	2 816	3 087	5 903
Diamonds (Carats)	820 752	1 001 851	902 616	1 904 468

Source: Ministry Of Mines and Chamber of Mines

2018 Initial Projections vs First Half Outturn

Mineral	2018 Initial Proj.	Jan-June 2018 Perf.	Outturn as %
Chrome \t	1,800	915,325	51
Coal \t	4,500	1,921,520	43
Gold \kg	29,500	18,113	61
Nickel \t	17,800	8,765	49
Paladium \kg	12,240	5,903	48
Platinum \kg	**15,300**	7,182	47
Diamonds	3,500	1,830,879	52
Overall growth	**11.6**		

Source: Ministry Of Mines and Chamber of Mines

36. Foreign currency shortages have remained the major challenge resulting in delays in the procurement of key spare parts for machinery and equipment.

Gold

37. Gold output reached 10 373 kg in the second quarter of 2018, about 79.3% higher than 5 784 kg registered during the same period in 2017. This performance is as result of a number of factors, among them, increased support to small scale producers extended by Fidelity Printers and Refiners (FPR). The support increased throughput by small scale producers, contributing around 65% to total output.

38. Other support measures include continuous surveillance, monitoring and auditing of producers through the gold mobilisation initiatives that have managed to plug leakages.

39. Furthermore, firming of international gold prices, from an average of US$1 329.29 per ounce in the first quarter to about US$1 306.45 per ounce during the second quarter of 2018, have buoyed output over the review period.

40. As a result, cumulative gold output amounted to 18 113 kg in the first half of 2018, surpassing the 10 828 kg realised in the same period 2017 by about 167%.

41. In this regard, the gold production target is expected to increase by 36%, from 29 500kg to 40 000kg, in 2018.

Platinum

42. Platinum output stood at 3 438 kg in Q2 2018, about 7% lower than the same period in 2017. This figure even falls short by 8.2% to that produced in the first quarter of 2018.

43. The lower than anticipated platinum output is attributable to reduced throughput from the major producer, Zimplats due to the planned closure of open-pit operations, as the company switched to underground operations at Bimha mine, which reached design production capacity.

44. As result, ore mined declined by 10% from the previous quarter. In line with these developments, volume of ore milled decreased by 5% from the previous quarter due to planned mill reline shutdowns at both concentrators during the quarter.

45. The company also experienced an 8% decline in concentrates throughput, due to a planned seven-day shutdown for maintenance in May 2018. This shutdown is conducted once every six months.

46. Platinum production was also adversely affected by declines in international prices from an average of US$977 per ounce in the first quarter, to about US$904 in the second quarter.

47. As a result, cumulative output for the first half of 2018 was 7 182kg, about 0.9% lower than the 7 244 kg realised in the same period in 2017.

48. In this regard, platinum production target for 2018 is envisaged to reach 14,300 kg.

Diamonds

49. Diamond output stood at 1 million carats in the second quarter of 2018, compared to 0.9 million carats produced during the same period in 2017.

50. Output has benefitted from significant capitalisation of ZCDC from the Government’s US$80 million.

51. Resultantly, cumulative output realised during the first half of 2018 stood at 1.9 million carats, also significantly higher than the 1.4 million carats, produced during the first half of 2017.

52. Diamond output will be further enhanced when ZCDC commissions the recently acquired crushing plant and equipment during the second quarter of 2018.

53. Against this background, the developments to date are in line with the 2018 target of 3.5 million carats.

Nickel

54. Nickel output declined by 11.7%, to end the second quarter of 2018 at 4 108 tonnes, from 4 551 tonnes produced in the same period of 2017. The lower than anticipated nickel output is attributed to both the reduced output from PGMs, particularly at Zimplats, as well as frequent breakdowns of the aging equipment and shortage of spare parts at the primary producer, particularly the haulage component.

55. Going forward, the primary producer is expecting delivery of better additional equipment in the third quarter of the year.

56. Notwithstanding the 11.7% decline in the second quarter, nickel output stood at 8 765 tonnes during the first half of 2018, which was about 2.4% higher than the 8 560 tonnes realised in the comparable period in 2017.

57. As a result of these developments, nickel is projected to end the year at about 17 300 tonnes.

Chrome

58. Chrome ore output increased to 503 879 tonnes in the second quarter of from about 411 446 tonnes in the first quarter of 2018, and was also 43% above the production realised during the same period in 2017. Chrome ore production partly benefitted from movements in international ore prices, which increased from an average of US$141.44 per tonne in Q1 2018 to average of about US$148.95 during the second quarter of 2018.

59. About 49% of this chrome ore was exported as raw, while the remaining 51% was beneficiated and exported as high carbon ferrochrome (HCF). The average international prices of HCF, however, retreated from about US$940.88 in the first quarter of 2018 to about US$906.86 per tonne, amid indications of reduced demand from the major market, China.

60. A total of 992 679 tonnes was produced during the first six months of 2018, compared to 681 470 tonnes in the same period in 2017.

61. In this regard, anticipated chrome output has been revised upwards to about 2 million tonnes in 2018, from an initial projection of 1.8 million tonnes.

Coal

62. Coal output, at 1 million tonnes during the second quarter of 2018, was 14.5% more than the 0.91 million tonnes produced in the comparable period of 2017. Cumulatively, coal output in the first half of 2018, stood at 1.9 million tonnes, about 51% above the 1.3 million tonnes registered during the same period in 2017.

63. Coal production largely benefitted from the entrance of new player, Liberation Mine which produced during the first five months of 2018 before suspending operations in May 2018. In addition, the ramping up of production at major producers, Hwange Colliery Company, Makomo and Zambezi Gas also pushed output upwards.

64. Hwange Colliery Company resuscitated underground mining activities and ramp up open cast operations, following delivery of some plant and equipment, increasing its output from an average of 100 000 tonnes to

around 300 000 tonnes, whilst Zambesi Gas also boosted production, through engaging a well-resourced mining contractor.

65. Coal output during the first half of 2018 was 1.9 million tonnes, 51% higher than 1.3 million tonnes for the comparable period of 2017. The higher production largely benefitted from production at major producers, as well as the entrance of a new player, Liberation Mine which had been in production during the first five months of 2018.

66. In this regard, coal is also expected to surpass the initial projection of 4 million tonnes to reach 4.5 million in 2018.

67. However, the unavailability of most of the required equipment due to shortage of foreign currency for procurement of spare parts, is however, expected to largely weigh down production.

68. The potential of Makomo, however, was constrained by low equipment availability due to shortage of foreign currency for procurement of spare parts.

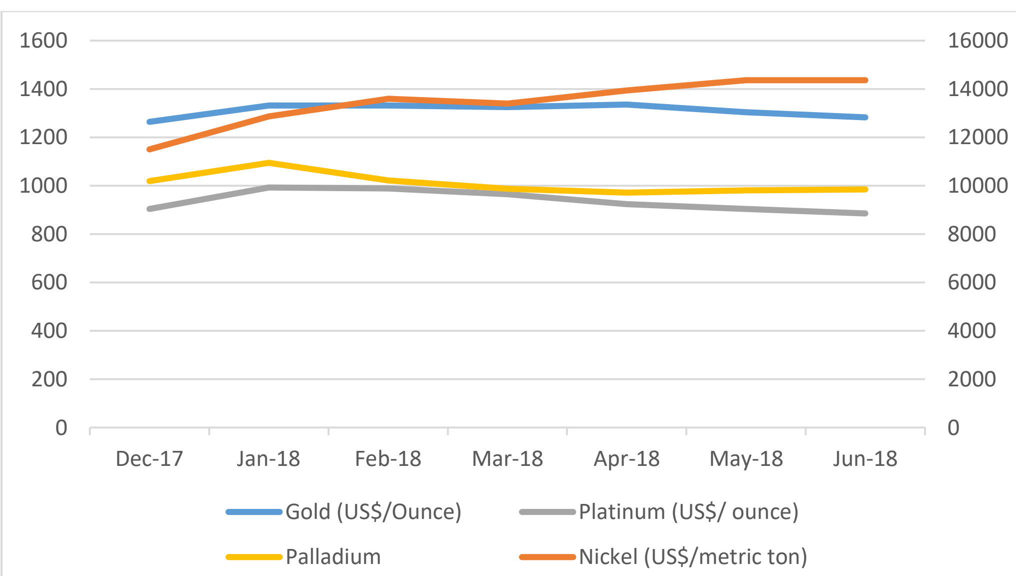
International Mineral Prices

69. While international prices for nickel and palladium improved, prices of gold and platinum prices were on a downward trend during the second quarter of 2018 as shown in graph below.

70. However, an upward trend is expected for gold in the third quarter and sustained in the medium term.

71. Platinum prices are being affected by reduced demand in our major markets.

International Prices for Selected Minerals



Source: World Bank

72. 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 stay 30% higher than in 2017 as initially projected.

Manufacturing

73. During the second quarter of 2018, manufacturing sector has been characterised by plant resuscitations and expansions, especially in the foodstuffs, drinks & beverages, non-metal products, as well as metal and metal products.

Food Stuffs

74. The foodstuffs subsector benefitted from new entrants and expansions, which included Davipel Ltd which is an agro-processing company, Grain Marketing Board stock feeds, and Nestle Zimbabwe.

Stock feeds

75. Stock feeds production increased by 22% as at May 2018, compared to the same period in 2017, with poultry feeds, as usual dominating the stock feed industry.

Flour

76. The country is currently faced with shortage of wheat stocks, hence resulting in a critical shortage of flour to feed to the bakeries. The country is currently producing less than a half of the national wheat requirements estimated at 400 000 tonnes per annum, and relies largely on imports of the product.

77. National wheat output this year is projected at about 132 000 tonnes, which would be way below the national demand of 400 000 tonnes.

Dairy Processing

78. Dairy processing registered an increase of 14.3% during the second quarter of 2018. This was a result of increase in milk intake from 15.2 million litres during the first quarter to 15.9 million litres in the second quarter, as shown by table below.

Milk Intake by Dairy Processors (2018)

Month	Intake by Processors (Litres)

Jan	5,475,735
Feb	4,692,470
March	5,019,529
Total	**15,187,734.00**
April	5,085,846
May	5,413,821
June	5,407,028
Total	**15,906,695.00**

Source: Zimbabwe Association of Dairy Farmers

Drinks and Beverages

79. The drinks and beverages subsector benefitted from the new entrant, Pepsi Company, that opened a US$30 million plant in June, 2018. However, despite the coming on board of the new entrant, during the second quarter of 2018, the subsector was characterised by shortages of soft drinks, due to foreign currency inadequacy for the importation of critical raw materials, resulting in extended periods of production stoppages and product supply gaps. Sorghum beer, again, was also negatively affected by shortage of packaging materials.

Textiles and Ginning

80. Capacity utilisation for the sub sector improved from around 25% in 2017 to around 40% by June 2018. Again, employment levels increased to 3 097 as at April 2018, from 2 700 recorded during the same period in 2017. The increase was largely underpinned by the resuscitation of some companies as

well as boost from command agriculture due to increased demand in some products such as grain bags along the value chain

Blankets Manufacturers

81. The subsector's capacity utilisation remains subdued largely due to illegal imports of cheap blankets, mainly from China, as well as challenges in foreign currency to secure raw materials. Since the adoption of the multicurrency, the subsector has witnessed very minimal exports as it cannot compete on the international market due to high cost of production, among other challenges.

82. Consequently, Waverly Blankets, the remaining blanket manufacturer, is currently operating at around 35% capacity. Again, as a result of the above viability challenges, Bulawayo's most iconic blanket makers, National Blankets has collapsed.

Metals and Metal Products

83. Capacity utilisation for the sub-sector grew from 37%, to about 40% during the second quarter 2018, largely due to resuscitations by some companies, while others expanded mainly by acquiring others ***(Engineering, Iron and Steel Association of Zimbabwe-EISAZ)***. Capacity utilisation is expected

to further increase during the third quarter due to increases in demand for agriculture farming implements.

84. In addition, the subsector benefitted from the entry of Steel Brands Pvt Ltd in June, 2018, following Government approval for its opening. Steel Brands manufactures reinforcement bars mainly for use in the construction industry. The company uses scrap metal as its raw materials following the closure of ZISCO.

Non-Metallic

Fertiliser Production

85. Fertiliser production increased, although at a minimal level largely due to shortage of foreign currency to procure ammonia, used in the production of ammonium nitrate

Cement Production

86. During the second quarter 2018, cement production grew by 41.4%, from 321 720 tonnes recorded in July 2017 to 476 224 tons registered in July 2018, as shown by table below. The growth was largely underpinned by a

rise in residential houses construction, while commercial activity continue to remain subdued.

Cement Production

Month	2017		2018	
	Production (Tons)	**Sales (Tons)**	**Production (Tons)**	**Sales (Tons)**
January	31,665	38,210	65,541	63,404
February	36,830	33,181	51,643	49,421
March	38,767	40,494	58,548	60,170
April	39,934	38,980	64,862	64,234
May	49,811	51,449	63,790	68,638
June	56,432	60,964	82,978	87,617
July	68,281	68,003	67,575	82,740
Total	**321,720**	**331,281**	**454,937**	**476,224**

Source: PPC, Lafarge, SINO Zimbabwe

Tourism

87. The ushering in of the new Government has seen the thaw of relations between Zimbabwe and the international community, as observed through the growing numbers of international tourist arrivals.

88. A preliminary report from Zimbabwe Tourism Authority for the 2018 first half indicates a 6% increase in tourist arrivals at 1,119,064 from 1,057,244 recorded during the same period in 2017.

89. This increase is partly explained by overseas arrivals which grew from 178 469 to 228 799 in 2018. The performance was partly driven by business and leisure tourists during the 1st quarter of 2018 as well as increased travel during the build-up to the elections from the 2nd quarter.

90. Whilst Africa continues to be Zimbabwe's main source market for tourist arrivals, taking 80% share, it gained a marginal 1% growth, with the overseas arrivals growing by 28% during the same period.

91. Main movers were Asia, Middle East and Europe, registering growth rates of 59%, 34% and 29%, respectively. Performance of the regional source markets is as shown in the table below.

Tourist Arrivals by Source Market

SOURCE REGION	2018 H1	2017 H1	Change	
AFRICA	890,265	878,775	1%	▲
AMERICA	56,642	51,401	10%	▲
ASIA	50,301	31,721	59%	▲
EUROPE	100,999	78,225	29%	▲
MIDDLE EAST	3,363	2,506	34%	▲
OCEANIA	17,494	14,616	20%	▲
GRAND TOTAL	1,119,064	1,057,244	6%	▲

Source: Zimbabwe Tourism Authority

92. Utilisation of hotel accommodation improved from an average of 43% during the 1st half of 2017, to 51% during the same period in 2018. All the major

regions registered positive growth except Masvingo, which recorded 40%, down from 43% in the previous year.

93. Activities in Victoria Falls, Harare and Bulawayo regions, with a combined market share of 64% of total room and bed capacities, continue to drive performance of the industry. As such, the regions averaged room occupancy rate of 54%, up from 48% during the same period in 2017. The rest of the regions, that include Kariba, Hwange, Nyanga, Mutare/Vumba, Midlands, Beitbridge and Masvingo, averaged 38%, up from 29% in the previous year.

94. Whilst Harare and Bulawayo benefitted largely from conferences, workshops and meetings, arrivals for resort destinations such as Victoria Falls, Vumba and Hwange were dominated by international leisure tourists, with an average of 76% being foreign clientele.

95. Domestic hotel clientele performed fairly well, taking 52% and 35% of total room and bed nights respectively, during the same period.

96. The outlook to year end remains positive as the country continues on the 'Zimbabwe is open for business' drive. Renewed interest in Zimbabwe as a destination for tourism and business will spur growth in tourism.

97. Industry players are aggressively on a drive to improve the product quality and range in order to lure tourists to the destination. Some of the already existing leisure activities include entries into national parks, historical sights and the most popular for Victoria Falls being the rainforest.

98. Investments in the industry are being directed towards refurbishment, upgrades, expansion of facilities and development of new products.

99. Increased connectivity, as observed for Victoria Falls airport, which recorded increased capacity from 21% to 26%, during the period under review will spur growth for the industry.

100. Therefore, the conducive enabling environment such as increased air and road connectivity, ICT enabled communication and improved destination image, will sustain tourism growth, going forward.

Electricity

101. Electricity generation during the second quarter of 2018 was relatively better, compared to the first quarter and the same quarter of last year, despite output falling below target.

102. Consequently, about 3.2% growth in electricity generation was recorded during the first half of 2018. The major drivers of growth were the commissioning of the second phase of the Kariba South Extension plant and the commissioning of an independent solar power plant by Nyangani Renewable Energy.

103. Despite the increase in generation, smooth production during the period under review was affected by numerous forced outages that were experienced at Hwange and small thermal power stations.

First Half Electricity Generation (GW/h)

	2018 Actual	2018 Target	Variance	2017 Actual	Growt h
January	644.3	588.8	9.4	519	**24.1**
February	501.1	565.1	-11.3	814	**-38.4**
March	555.2	648.9	-14.4	629	**-11.8**
April	637.0	697.2	-8.6	592	**7.7**
May	796.2	784.7	1.5	631	**26.2**
June	777.2	780.6	-0.4	606	**28.3**
Total	**3,910.9**	**4,065.3**	**-3.8**	**3,790.9**	**3.2**

Source: ZPC

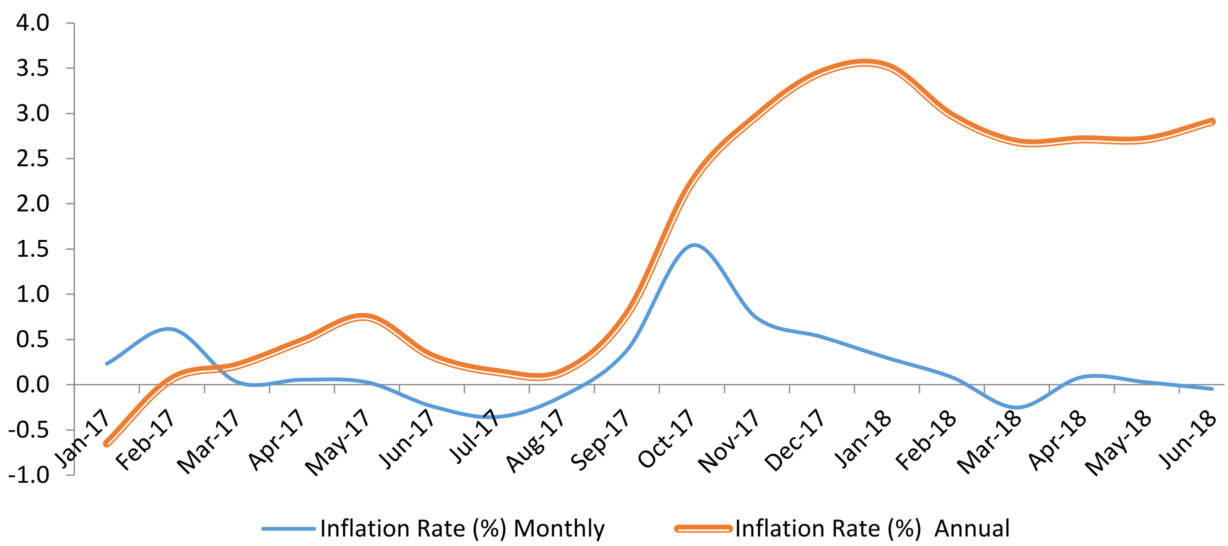
104. In the outlook to December, electricity generation is expected to increase steadily, following improved water levels at Kariba dam by 32% starting in July 2018.

Inflation

105. Inflation during the second quarter remained generally low, despite build-up of some inflationary pressures, particularly driven by parallel exchange market rates. Year on year inflation was maintained at 2.7% in April and May, before gaining to 2.9% in June.

106. The first half inflation profile reflects a slowdown compared to the last half of 2017. When compared to the same period in 2017, the profile, however, indicates a significant rise in inflation during the first half of 2018.

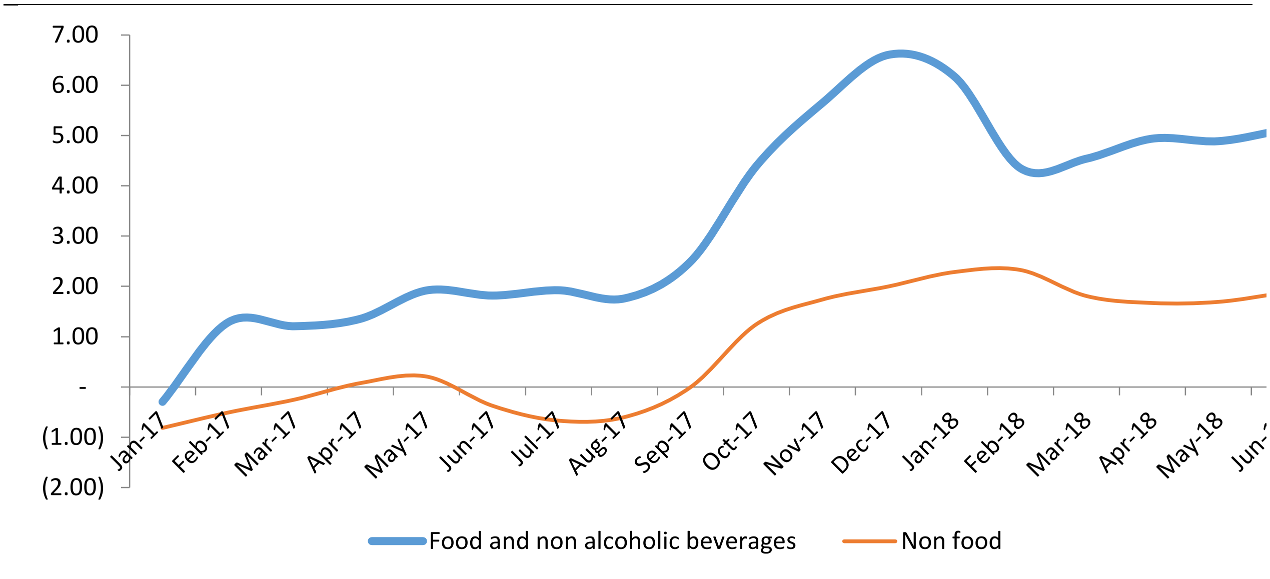
Head Line Inflation profile (%)



Source: ZIMSTAT

The category of food and non-alcoholic beverages experienced huge increases, a reflection of the impact of parallel exchange rate fluctuations on tradable goods. Non-food items, made up mainly of non-tradable goods, have been facing relatively lower inflationary pressures.

Food and Non Food Inflation Profile (%)



Source: ZIMSTAT

107. In the outlook, inflation is expected to be guided by currency reform, external factors, particularly international oil prices, and expectations of the new economic dispensation.

FISCAL PERFORMANCE

108. The rising budget deficit was of concern during the second quarter, as well as in the first half of 2018. Deficits continue to be incurred despite the good performance of revenue collections, which performed above the targets.

109. The rising deficit emanated from expenditure overruns in both the recurrent and capital expenditure and net lending. Financing, in both the second quarter and first half of 2018 was entirely from the domestic market, a

situation which continues to constrain private sector borrowing and threaten financial stability.

Revenue

110. Revenue collections during the second quarter of 2018, at US$1.3 billion, over-performed the set target of US$1.1 billion by 20.2%. Similarly, first half revenue collections, at US$2.5 billion, registered a 14.3% positive variance.

111. Second quarter performance represents a phenomenal 45.7% increase from the collections of US$918.0 million recorded during the same period in 2017.

112. The Table below shows 2018 second quarter revenue performance against targets.

	Actual	Target	Variance (%)
Total Revenue	1 337.9	1 112.9	20.2
Tax Revenue	1 266.5	1 049.9	20.6
Non tax Revenue	71.5	63.1	13.3

Revenue Performance: Jan - June 2018 (US$ Million)
Source: Ministry of Finance and Economic Development

113. Both Tax Revenue and Non-tax Revenue recorded positive variances above 10%, at 20.6% and 13.3%, respectively, an indication of better than anticipated economic performance during the quarter.

114. Although, tax revenue's contribution to total revenue declined from 95.4% in the first quarter of 2018 to 94.7% in the second quarter it continued to account for the greater percentage of total revenues, while non-tax revenue contributed 5.3%, from 4.6% it contributed in the first quarter.

115. Improved tax revenues during the period under review was on account of better performance by industries as denoted by better performance by corporate income tax, as well as domestic dividend and interest. However, the performance is also attributed to rising inflation which was in the positive range.

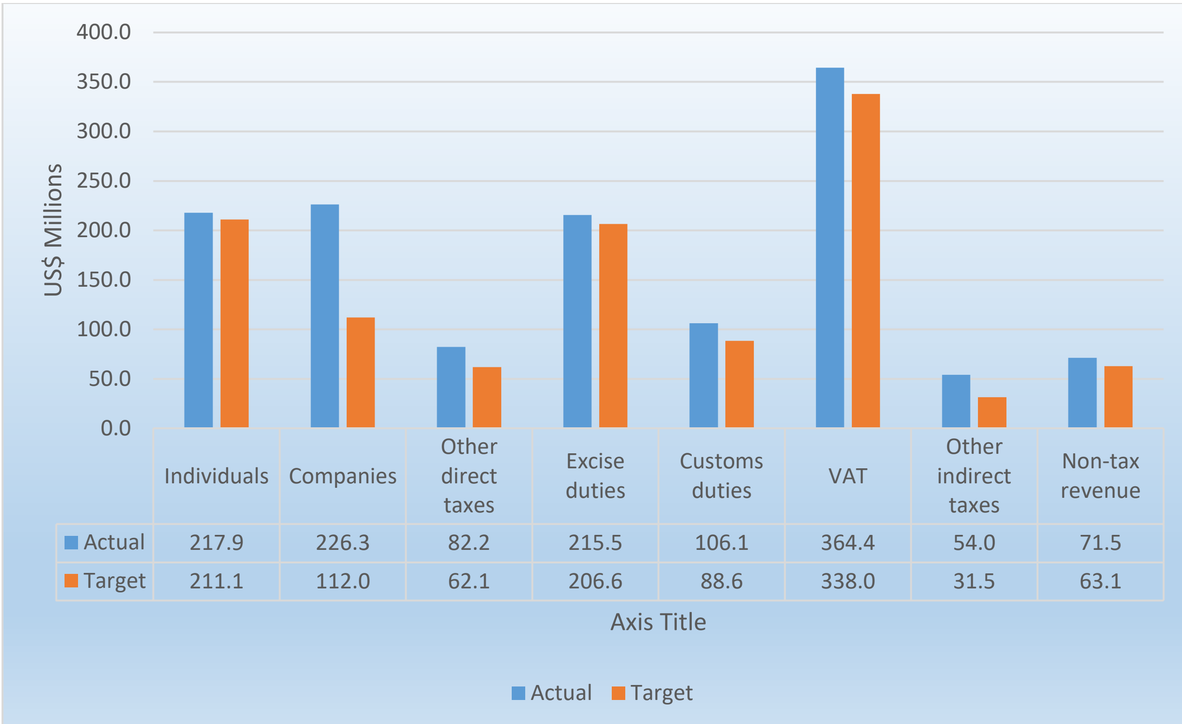
116. Non-tax revenue amounted to US$71.5 million, for the period April to June against a target of US$63.1 million, performing above the target by 13.3%.

117. Non-tax revenue collections have since moved away from the norm of performing below the target since the beginning of the year with the first quarter having registered a 2% positive variance.

Revenue Heads' Contribution

118. All revenue heads performed above the targets, as indicated on the graph below, with companies being the highest in surpassing the quarterly target at 102.1%.

2018 Second Quarter Revenue by Revenue Head: Actual vs Target



Source: Ministry of Finance-Revenue & Tax Policy

119. Consequently, total actual revenues were greater than projected by 20.2%, due to revenue over-performance during all of the months, April, May and June.

120. The major contributors to revenue collections continued to be VAT, at 27.2% from 29.5% contributed during the first quarter, followed by Companies, 16.9% from 11%, Personal Income Tax, 16.3% from 16.7% and Excise Duty, 16.1% from 20.4%.

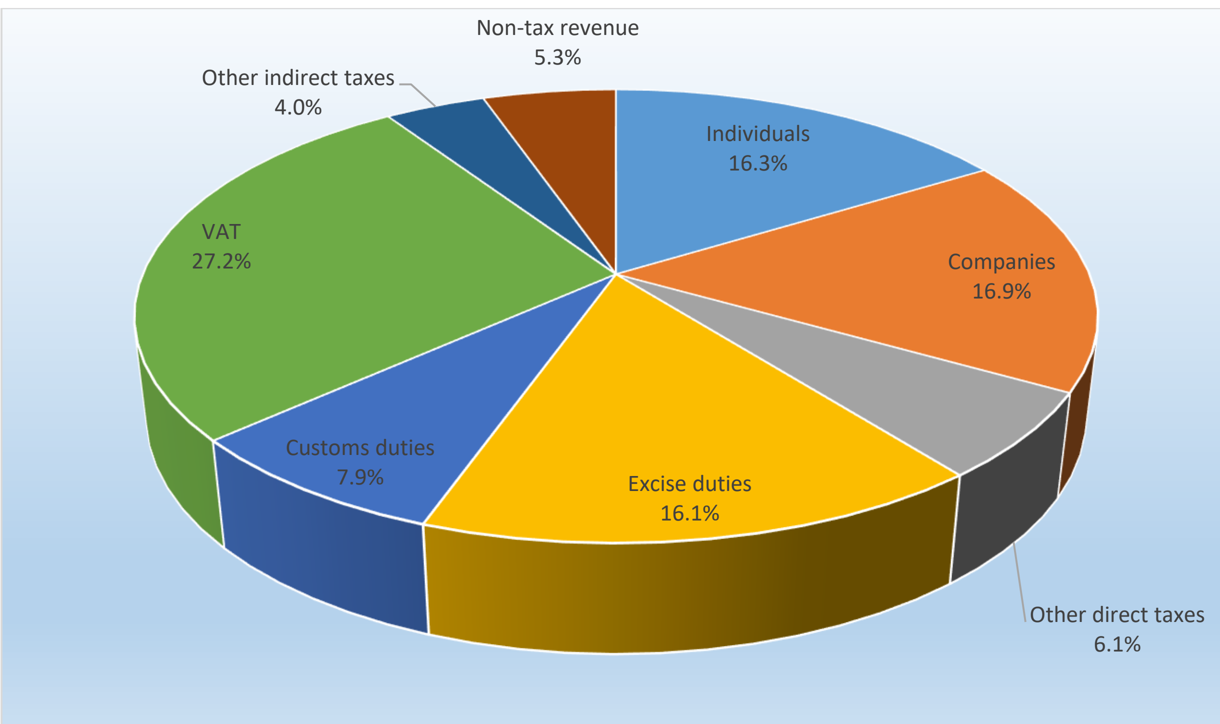
121. Excise duty contributed second to total revenue in the first quarter but in the second quarter it contributed fourth position due to poor performance by most of its subheads which are wines and spirits, tobacco, second hand

motor vehicles, fuels and electric lamp. The poor performance by these excise subheads is attributed to the general increase in prices at the backdrop of stagnant disposable incomes.

122. On the contrary, companies' tax contributed second in the second quarter from fourth position in the first quarter, a development that is encouraging as it indicates better performance of the industry.

123. 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

Revenue Performance: Jan-June 2018

124. Revenue collections for the first half of the year amounted to US$2.5 billion against a target of US$2.1 billion, resulting in a positive variance of US$314.3 million, representing a positive variance of 14.3% of the budgeted revenue. In addition, the collections registered a 40.6% increase, when compared to US$1.8 billion collected in the first half of 2017.

125. The Table below shows 2018 first half revenue performance against targets.

Revenue Performance: Jan - June 2018 (US$ Million)

	Actual	Target	Variance (%)
Total Revenue	2 511.9	2 197.6	14.3
Tax Revenue	2 372.2	2 079.5	14.1
Non tax Revenue	138.7	118.1	18.2

Source: Ministry of Finance and Economic Development

126. The over-performance of revenues during the first half is largely attributed to general economic performance and rising inflation

127. In terms of revenue heads contribution to total revenue, VAT continued to lead with excise duty contributing second. This is a shift from the traditional order, where individual income tax was the first ahead of VAT. This can be due to more informalisation of the economy than years back as well as non-

remittance of PAYE to ZIMRA by most employers who collect this tax on behalf of ZIMRA.

Expenditure

128. Budget expenditures over the period under review amounted to US$2.5 billion, against the planned US$1.4 billion.

129. Resultantly, expenditure over-runs of US$1.1 billion were incurred, mainly due to over-expenditure on Capital & Net Lending (US$898.3 million), Operations & Maintenance (US$129.3 million) and employment costs (US$92.6 million).

Expenditure: Apr – Jun 2018 (US$ Million)

	Actual	Target	Variance (%)
Total Expenditure & Net Lending	2 502.5	1 390.8	-439.7
Employment Costs	1 000.9	908.3	-10.2
Operations & Maintenance	299.3	170.3	-76.1
Interest	58.6	67.2	12.8
Capital & Net Lending	1 143.6	245.3	-366.2

Source: Ministry of Finance & Economic Development

130. Consequently, the 2018 second quarter expenditure overrun was way higher than the US$273.2 million overrun recorded during the first quarter of 2018.

Employment Costs

131. Expenditure on employment costs for the second quarter to June 2018 amounted to US$1 billion, against a target of US$908.2 million, resulting in an expenditure overrun of US$92.6 million.

Employment Costs: Apr - Jun 2018 (US$ Million)

	Actual	Target	% Variance
Total Employment Costs	**1 001**	**908.3**	**-10.2**
Civil Service	716.6	653.6	-9.6
Grant Aided Institutions	164.9	135.2	-21.9
Pension	119.4	119.4	0

Source: Ministry of Finance & Economic Development

Operations and Maintenance

132. Operations and Maintenance costs amounted to US$299.3 million, against planned expenditures of US$170.0 million, exceeding the quarterly target by US$129.3 million. The expenditures were higher than the preceding quarter's expenditures of US$218.7 million.

133. The significant over-expenditure on operations and maintenance is mainly due to expenditures on programmes and institutions, as well as domestic and foreign travel.

Interest on Debt

134. Interest payments amounted to US$58.6 million, against a target of US$67.2 million. It is important to note that all interest payments were on domestic debt and thus no interest on foreign debt was paid during the second quarter of 2018.

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

Capital Expenditures & Net Lending

136. Capital expenditures and Net Lending during the review period amounted to US$1.1 billion, against a target of US$245.3 million, resulting in over-expenditure of US$898.3 million.

137. The overrun in capital expenditure was mainly due to payments towards capital transfers and infrastructure expenditures on road, water and sanitation and other sectors. Capital transfers amounted to US$711.8 million against the US$139.2 million quarterly target, most of which was expended towards the purchase of inputs under the Command Agriculture and presidential input scheme as well as grain procurement.

138. Net lending, at US$167.0 million, consisted of capitalisation of State Owned Enterprises (SOEs).

Expenditure Performance: Jan-June 2018

139. Total expenditures during the same period stood at US$3.86 billion against a targeted expenditure of US$2.46 billion, implying an expenditure over-run of US$ 1.39 billion.

Expenditure: Jan – Jun 2018 (US$ Million)

	Actual	Target	Variance (%)
Total Expenditure & Net Lending	3 856.6	1 263.3	-56.6
Employment Costs	1 843.2	1 688.7	-9.2
Operations & Maintenance	428.6	291.2	-47.2
Interest	105.8	79.8	33.1
Capital & Net Lending	1 479.1	370.5	-299.2

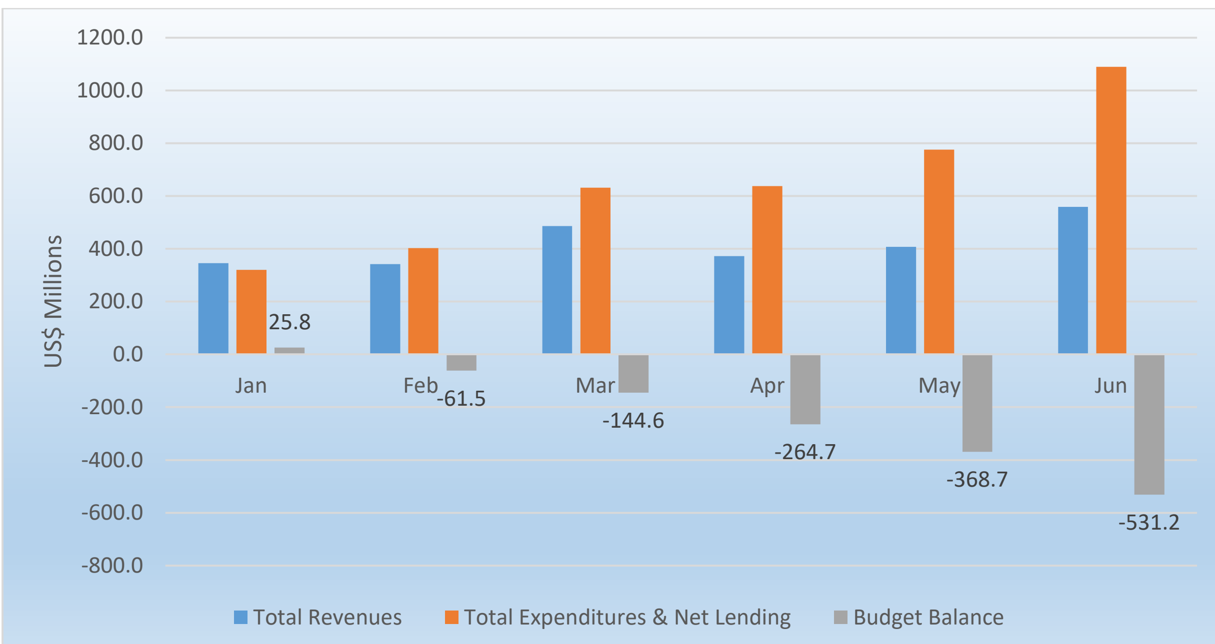
Source: Ministry of Finance & Economic Development

140. The table above shows that all expenditure heads were higher than the set targets save for interest payments. The most expenditure over-run was on

capital expenditure and net lending as Government strived to improve the infrastructure, as well as availing agriculture inputs and capitalisation of some parastatals.

Budget deficit

141. The cumulative budget deficit for the period January to June 2018 stands at US$1.3 billion, against a cumulative target to June of US$265.7 million.



Source: Ministry of Finance & Economic Development-Budgets

142. The huge deficit for the period to June is as a result of mainly unbudgeted expenditures relating to the following:

- Expenditures on the wage bill driven by pension disbursements amounting to US$39.2 million and review of health sector specific allowances, which led to an additional monthly bill of US$12 million, as well as filling of 2 282 nursing posts in the health sector;
- Support towards the agriculture input support schemes, US$616 million and grain procurement, US$81 million.
- Capital expenditure towards roads of US$225 million, and dam construction of US$87.2 million as well as capitalisation of public institutions of US$212 million.

Financing

143. Financing of the deficit was through Treasury Bill Issuances of which those done through the Bank amounted to US$635.5 million and Non-bank amounted US$736.7 million.

144. Furthermore, lending to Government by Central Bank increased by US$478.2 million, for the period January to June 2018. Government also financed itself through accumulation of arrears which stood at US$79.6 million as at June 2018.

FINANCIAL SECTOR

145. Two microfinance banks were opened during the second quarter, the Empower Bank for the youth and the Zimbabwe Women's Microfinance Bank.

These banks are expected to promote financial intermediation and inclusion of the marginalised people, such as youth and women, who traditionally have limited collateral.

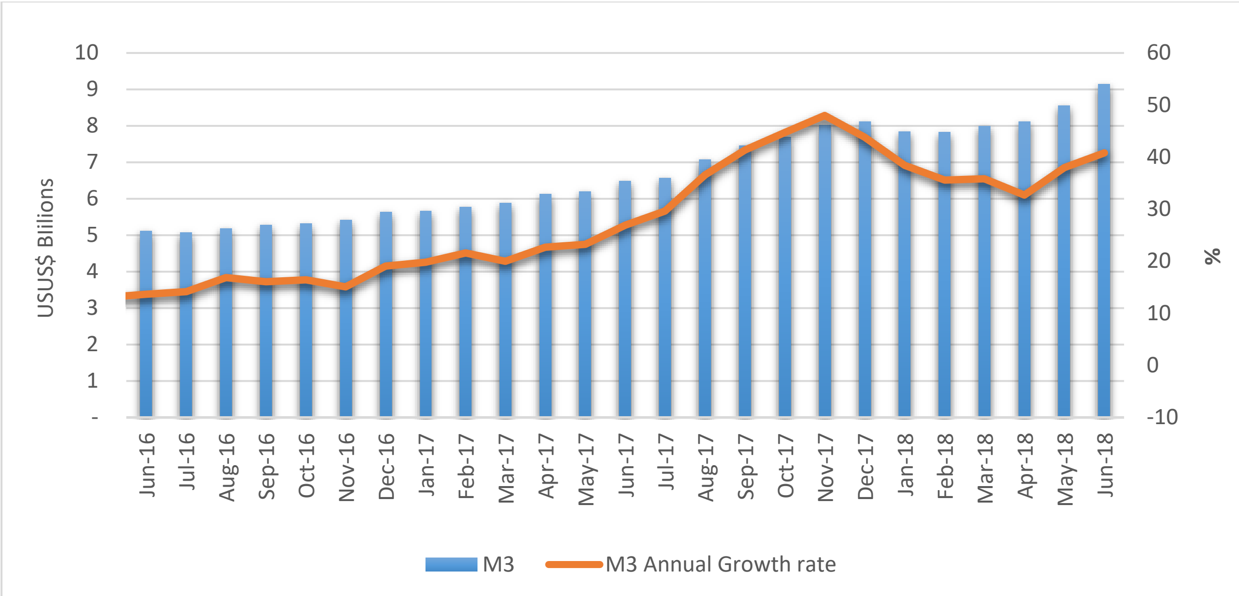
Money Supply

146. Annual broad money increased by 40.81% to US$9.14 billion in June 2018, from US$6.49 billion in June 2017.
147. The growth in money supply is largely attributable to increases in transferable deposits, at 93.31%, and negotiable certificates of deposits (NCDs) (1.79%) although time deposits offset the increase with a decline of 5.18%.

148. Bond notes and coins in circulation outside the banking system increased from US$175.77 million in June 2017, to US$379.20 million in June 2018.

149. The chart below depicts the trend in money supply.

Broad Money Supply and Growth Rate



Source: Reserve Bank of Zimbabwe

Domestic Credit

150. The increase in broad money also translated to growth in domestic credit which, recorded an annual increase of 47.34%, from US$8.43 billion in June 2017, to US$12.42 billion in June 2018.

151. The growth was underpinned by an expansion of 73.9% in net credit to Government which stood at US$7.70 billion in June 2018, up from US$4.43 billion in June 2017.

152. Credit to the private sector increased by 11.42%, from US$4.45 billion in June 2017 to US$4.96 billion in June 2018.

Zimbabwe Stock Exchange

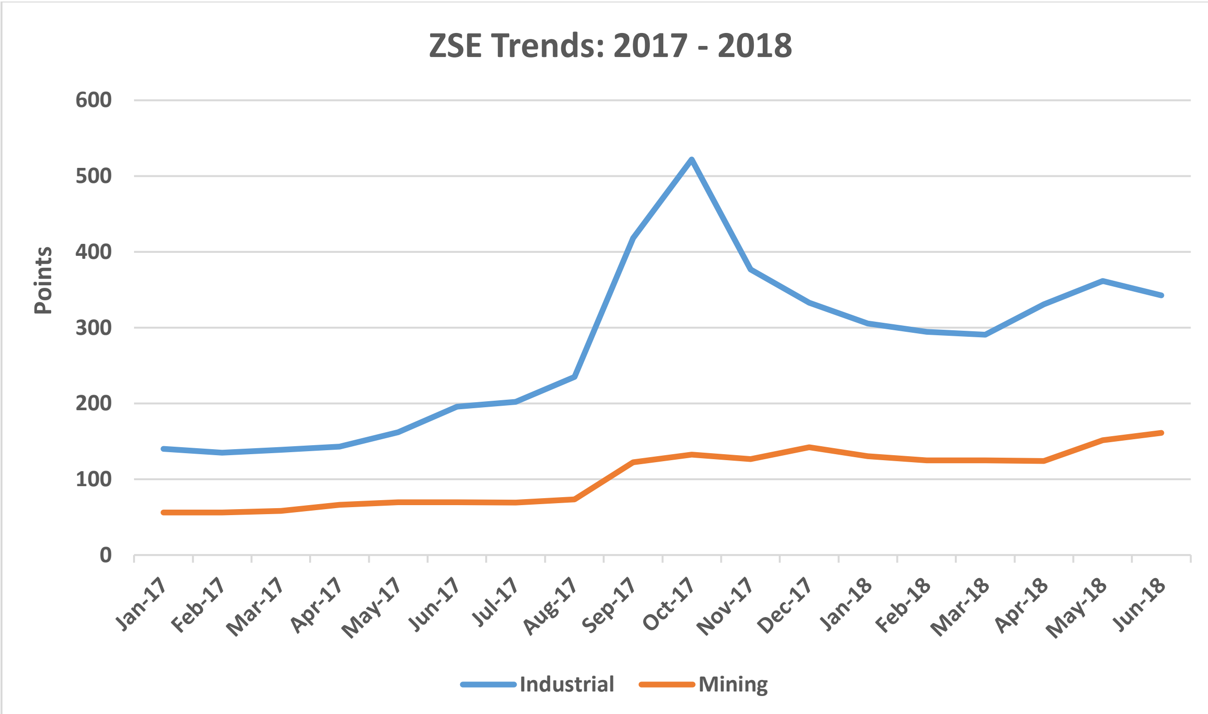
153. The second quarter was characterised with mixed trading and volatility and as investors' maintained cautious approach ahead of the plebiscite in July 2018.

154. The industrial index opened the second quarter of 2018 at 291.0 points and increased to 361.5 points in May 2018 before shedding points to close the month of June 2018 soft. On a quarterly basis the industrial index gained 17.8%.

155. The mining index however, gained 28.9% during the second quarter opening at 125.1 points and closing stronger at 161.3 points.

156. Accordingly, total market capitalization of the ZSE stood at US$9.79 billion in June 2018, up from US$8.29 billion at the beginning of April 2018. The trends in the ZSE are depicted in the chart below.

The Trends in market capitalization of the ZSE.



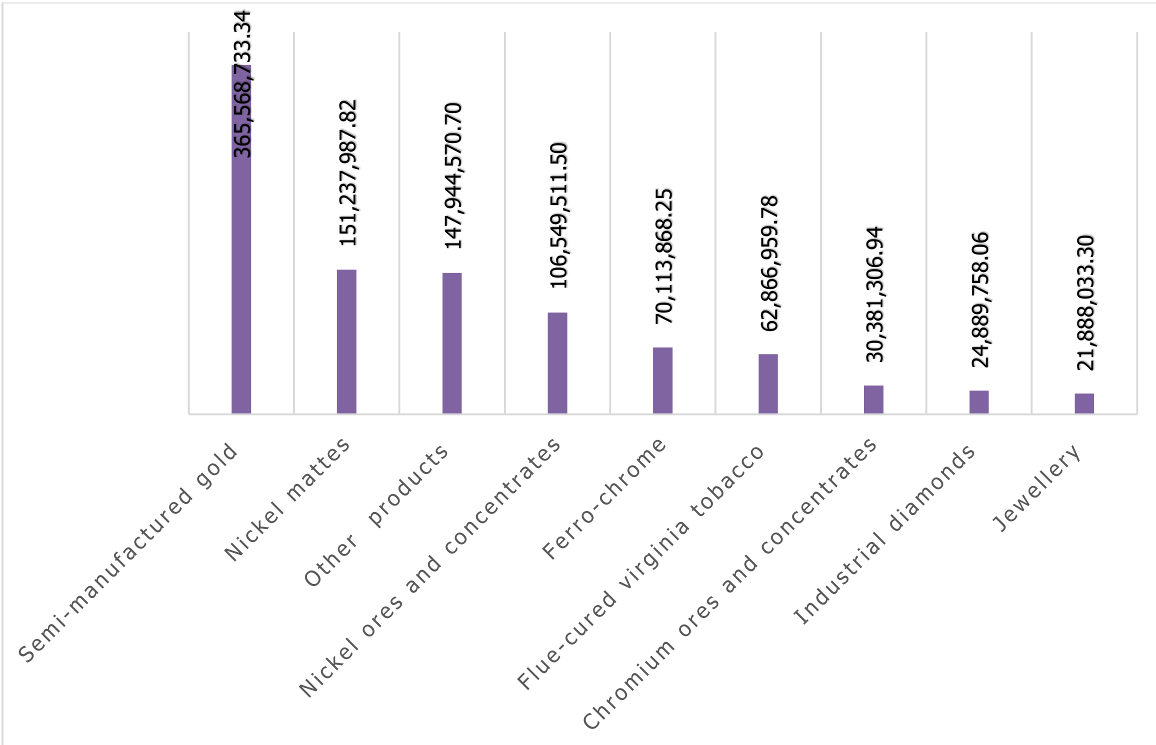
Source: Reserve Bank of Zimbabwe

EXTERNAL SECTOR

Exports

157. During the second quarter of 2018, the country's merchandise export receipts stood at US$981.4 million, mainly from gold, nickel mattes and nickel ores & concentrates, ferrochrome flue cured Virginia tobacco and chromium ores and concentrates. The graph below illustrates major exports by product during the second quarter of 2018.

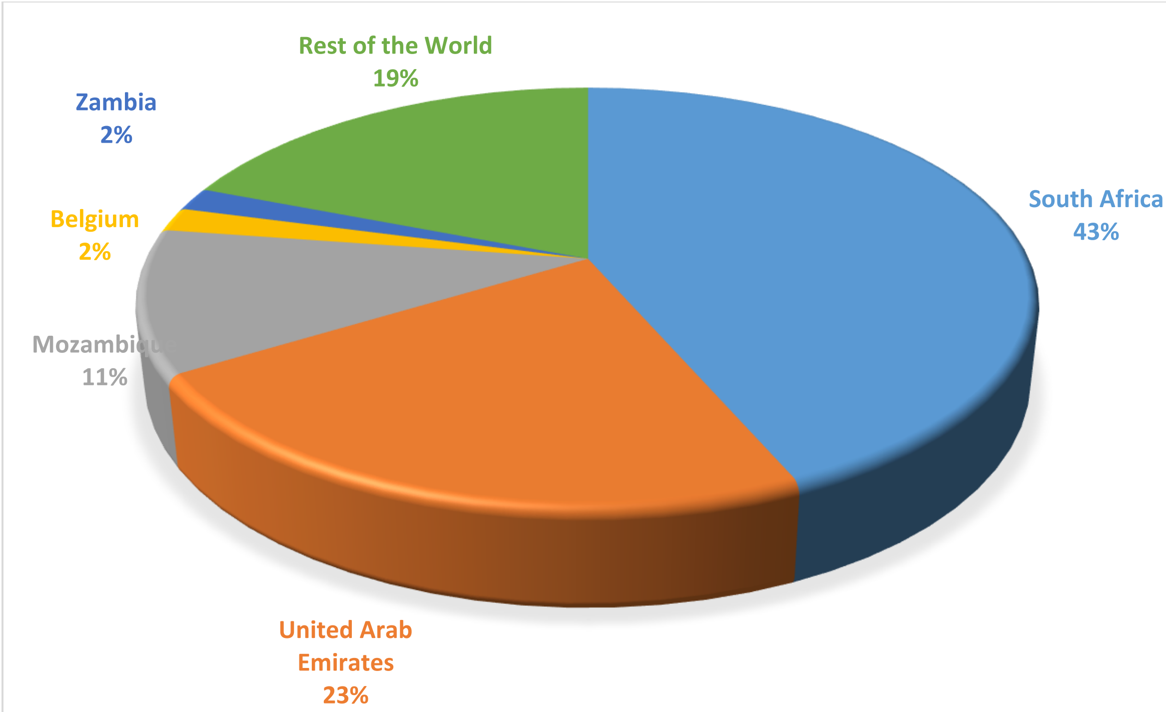
Exports by product



Source: ZIMSTAT, 2018 and Ministry of Finance calculations

158. The main export destinations were South Africa, United Arab Emirates and Mozambique, constituting 43%, 23%, and 11%, respectively as shown in the chart below.

Exports by Country Destinations

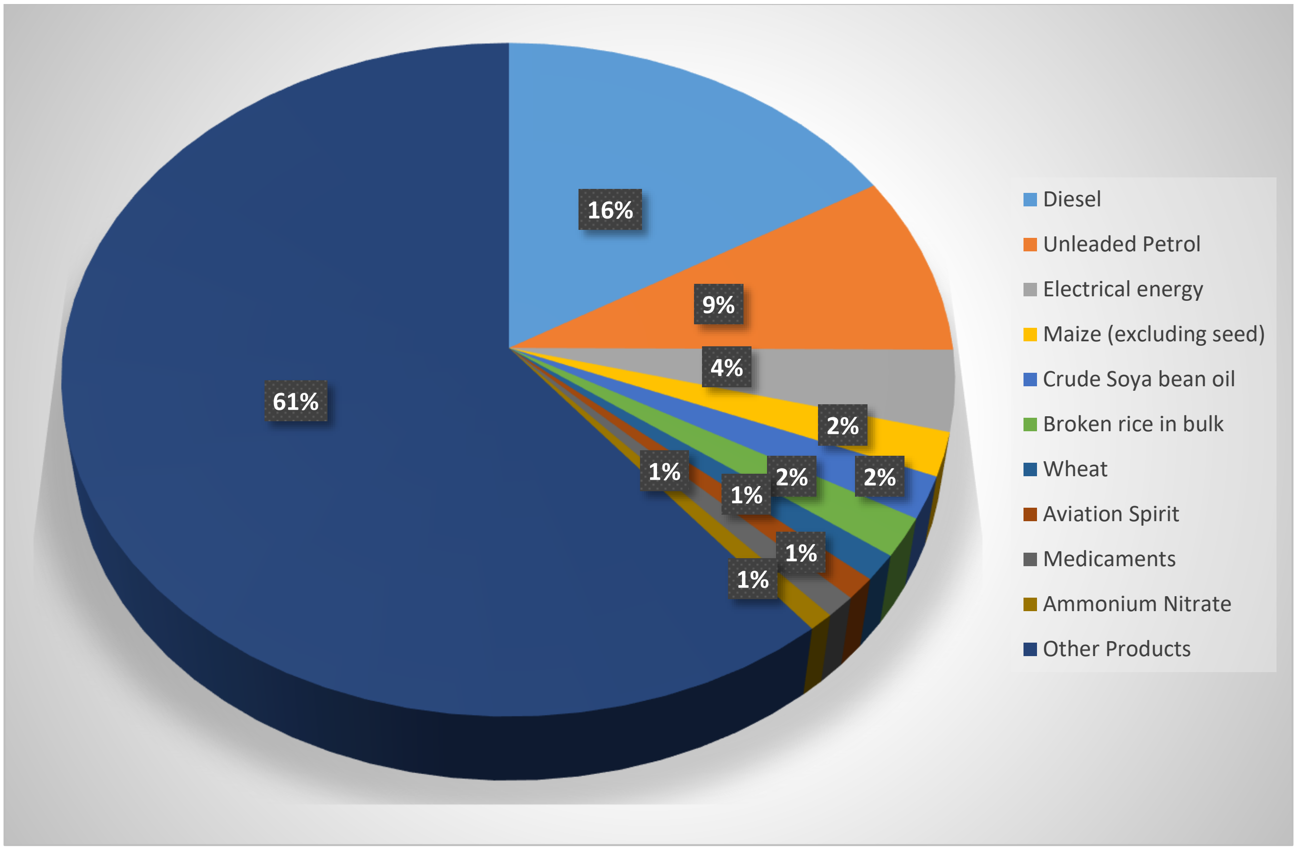


Source: ZIMSTAT, 2018 and Ministry of Finance and Economic Development calculations

Imports

159. Merchandise imports stood at US$1.7 billion during the second quarter of 2018. Fuels, electrical energy, cereals, fertilizers and medicines remain the country's major imports. The chart below shows the top ten imports by product.

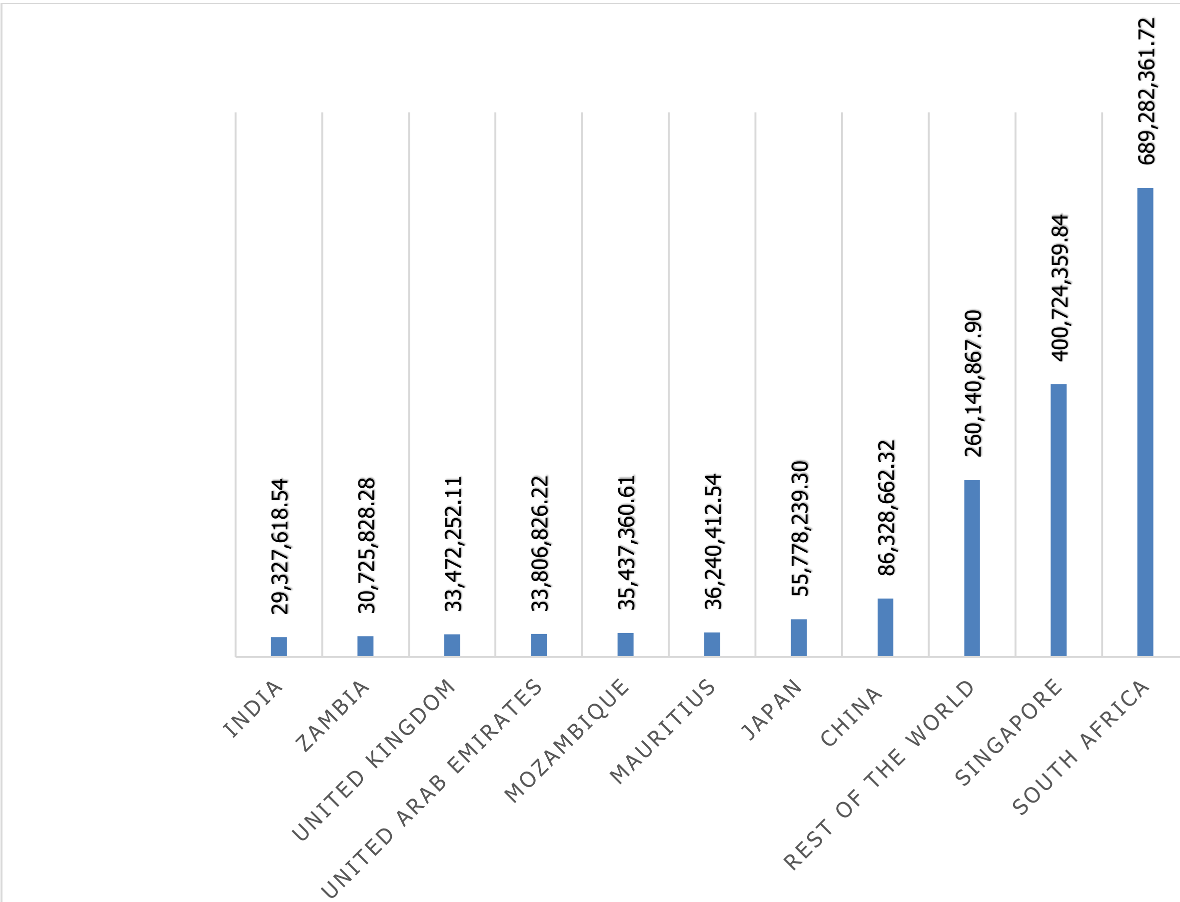
Imports by product



Source: ZIMSTAT, 2018 and Ministry of Finance and Economic Development calculations

160. South Africa, Singapore, China, Japan, Mauritius and Mozambique remained major sources of imports for the country as illustrated in the graph below.

Imports by country



Source: ZIMSTAT, 2018 and Ministry of Finance and Economic Development calculations

161. As a result, 2018 second quarter trade deficit stood at US$709.8 million, an improvement from the 2018 first quarter deficit of US$784.3 million.

Trade Balance

Source: ZIMSTAT, Ministry of Finance and Economic Development calculations

Debt

162. Domestic debt stock for the second quarter stood at US$8.3 billion compared to US$7.4 million in the first quarter. This represents a US$977.5 million increase on debt stock. The increase emanates from the need to finance the widening budget deficit, arrears to service providers including those incurred in previous fiscal years and purchase of maize grain by GMB.

Monthly debt stock: Jan – Jun 2018

Source: Ministry of Finance & Economic Development

163. Repayment of Government debt incurred in the previous fiscal years through issuing of Treasury Bills constitutes the biggest share of the current debt, at 44%, of the total domestic debt followed by the overdraft facility, at 22.2%.

164. The overdraft at US$1.8 billion, at the close of the first half, which has risen by US$361.4 million, from the first quarter position of US$1.5 billion, poses a serious challenge to the Government finances because an overdraft facility is very expensive.

165. Furthermore, Government has surpassed the recommended overdraft of 20% of the previous year's revenues, by US$1.1 billion.

166. With the situation presented above, there is an urgent need to institute measures that reduce overdraft position which will in turn help in achieving the fiscal consolidation objective.

167. External debt stock stood at US$8.4 billion at June 2018. The bulk of external debt is to the bilateral creditors, at 46% of the total external debt stock.

168. Total debt, both domestic and foreign, stood at US$16.7 billion at the end of the second quarter of 2018.

CONCLUSION

169. The Ministry of Finance and Economic Development will continue to monitor the economic and fiscal developments and provide updates. The next Quarterly Treasury Bulletin will be available in October 2018.

Fiscal Policy and Advisory Services
September 2018