TREASURY QUARTERLY BULLETIN

April – June, 2020

Ministry of Finance and Economic Development

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INTRODUCTION

1. The second quarter was marked by continued repercussions of the global COVID-19 pandemic as well as restrictions on economic activity to contain the spread of the virus.

2. Government took measures to mitigate the impact of the pandemic, including a Stimulus Package of ZWL$18.2 billion in support of productive sectors of the economy and health services. The Stimulus Package was funded through reallocation of Government expenditures, new revenue streams and the banking sector.

3. Despite the challenging environment, Government continued implementing the Transitional Stabilisation Programme reforms as announced in the 2020 National Budget.

4. Resultantly, the performance on Central Government finances remained stable, and recorded a surplus of about ZWL$800 million. While revenues outperformed their target by 37%, expenditures were contained at 12% below target.

PUBLIC FINANCES

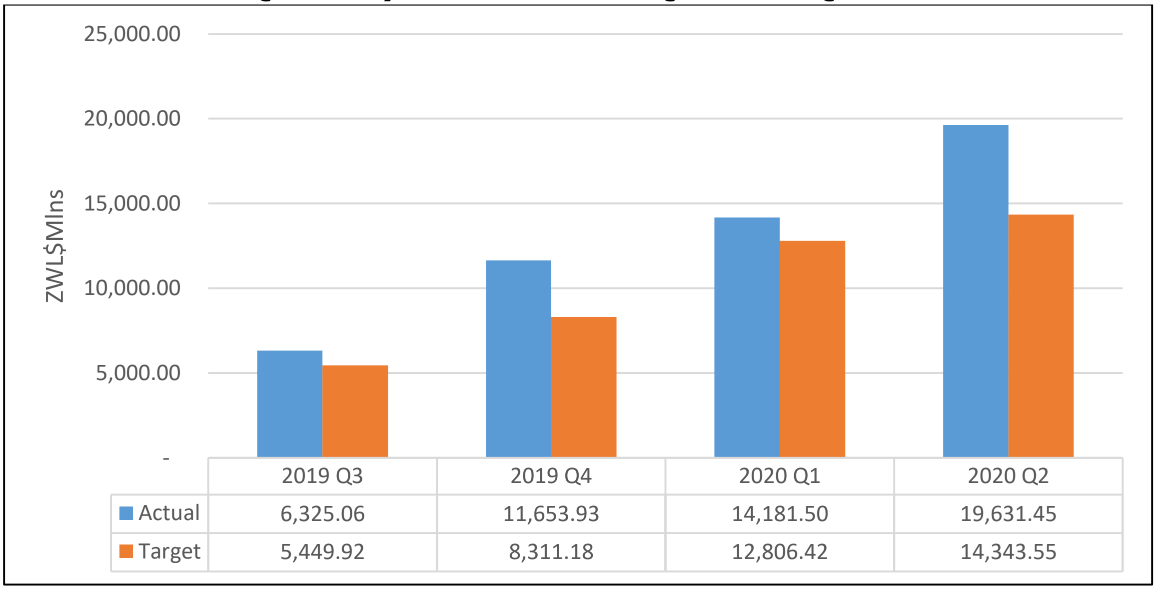
5. Proper management of public funds is critical in building market confidence critical for long term stability. Government therefore, maintained momentum on prudent fiscal management even in the face of various expenditure pressures.

6. Consequently, a total of ZWL$19.6 billion was collected during the second quarter against disbursements of ZWL$18.5 billion, of which ZWL$15.5 billion were actual payments.

Revenue

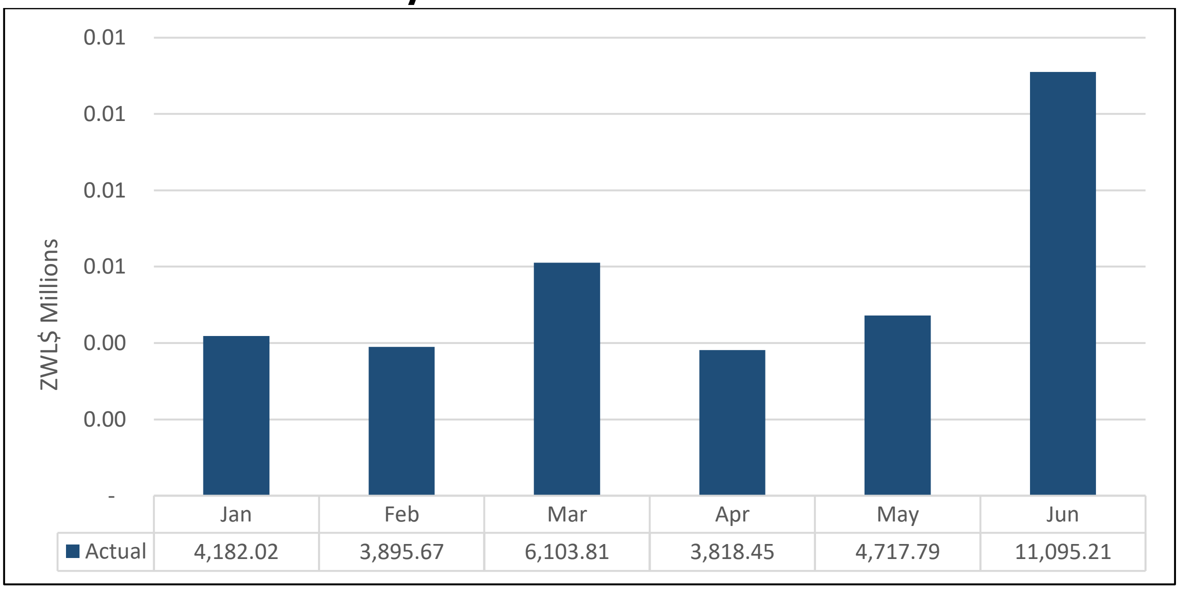
7. Revenue collections during the second quarter grew by 38% to ZWL$19.6 billion compared to the previous quarter and were 37% above targeted collections of ZWL$14.3 billion. High revenue performance coincided with the quarterly payment dates (QPD) of June 2020.

Quarterly Revenue: 2019Q3 - 2020Q2



	2019 Q3	2019 Q4	2020 Q1	2020 Q2
Actual	6,325.06	11,653.93	14,181.50	19,631.45
Target	5,449.92	8,311.18	12,806.42	14,343.55

Monthly Revenue: Jan-Jun 2020

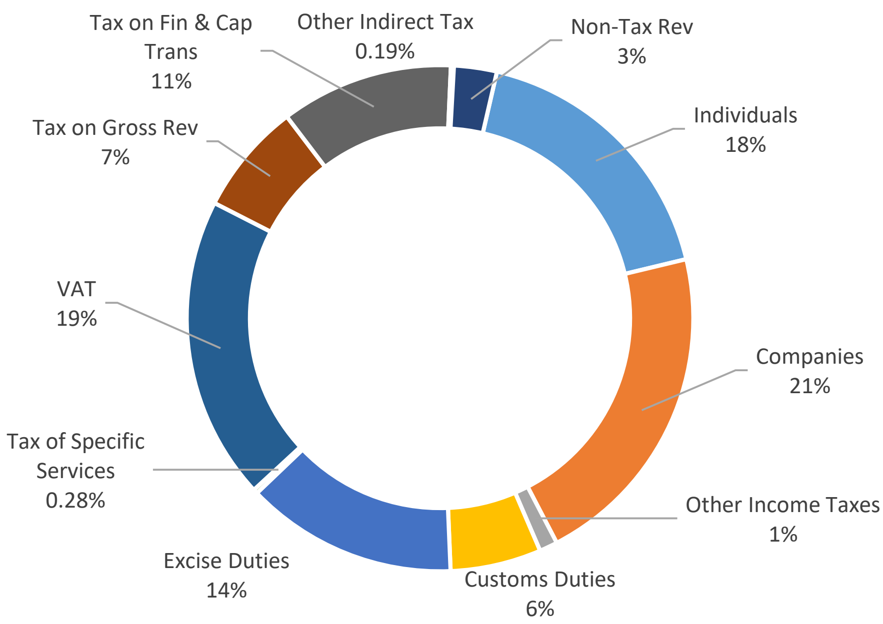


	Jan	Feb	Mar	Apr	May	Jun
Actual	4,182.02	3,895.67	6,103.81	3,818.45	4,717.79	11,095.21

Performance of Revenue Head

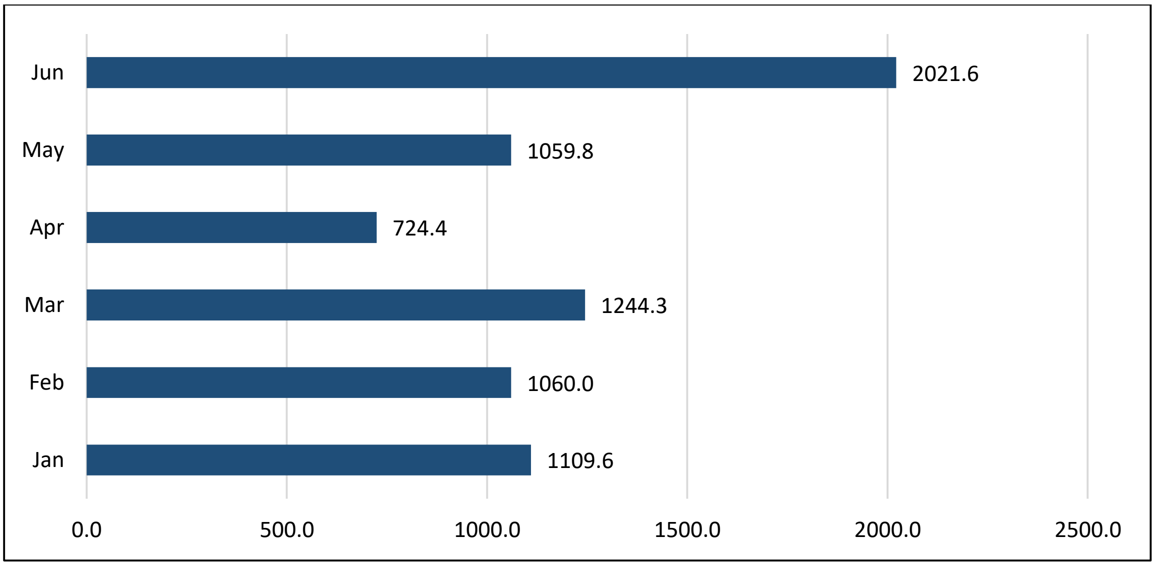
8. Most revenue heads performed above target. Corporate income tax contributed 21% of total revenue followed by value added tax which contributed 19%.

2020 Q2 Revenue Heads



9. VAT collections increased during the quarter, from ZWL$724 million in April to ZWL$2 billion in June.

VAT Collections: Jan-Jun 2020



10. Personal Income tax, which contributed 18% of total revenue, increased on account of a bracket creep arising from salary increases, largely in the private sector. Allowances for health sector staff responding to the pandemic were exempt from tax.

11. Excise Duties, which contributed 14% to total revenue was sustained by duty from fuel (contributing 89% to the revenue head) increased to ZWL$2.4 billion during the 2nd quarter from ZWL$1.9 billion in the 1st quarter.

12. Customs Duties were largely below target, owing to reduced trade as most countries instituted travel restrictions from March to June. However, medical imports required in the fight against COVID-19, such as PPE and medical supplies, increased during this period, and these were exempted from customs duties.

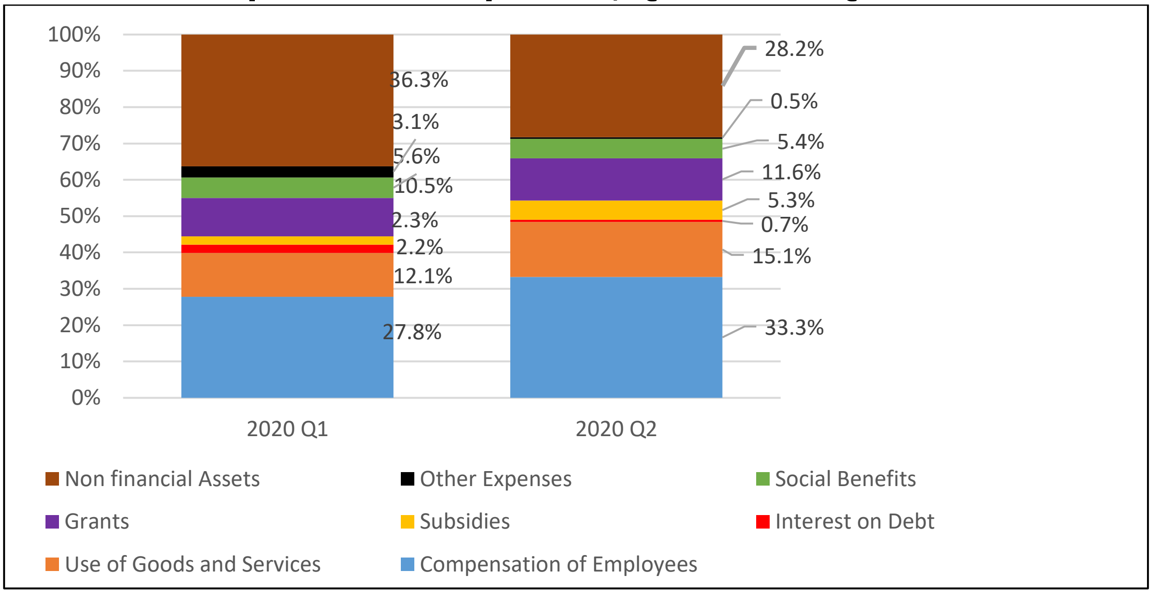
Expenditure

13. The second quarter saw a marked response by Government to the COVID-19 pandemic. On 30 March 2020, Government announced fiscal mitigatory measures to contain the impact of COVID-19 to (MDAs).

14. Most notably, Ministries, Departments and Agencies (MDAs) were advised to re-prioritise expenditures including re-directing capital spending towards the fight against the pandemic. Re-prioritisation of expenditure was a necessary step in view of high expected pandemic related costs and in the face of shrinking revenue base.

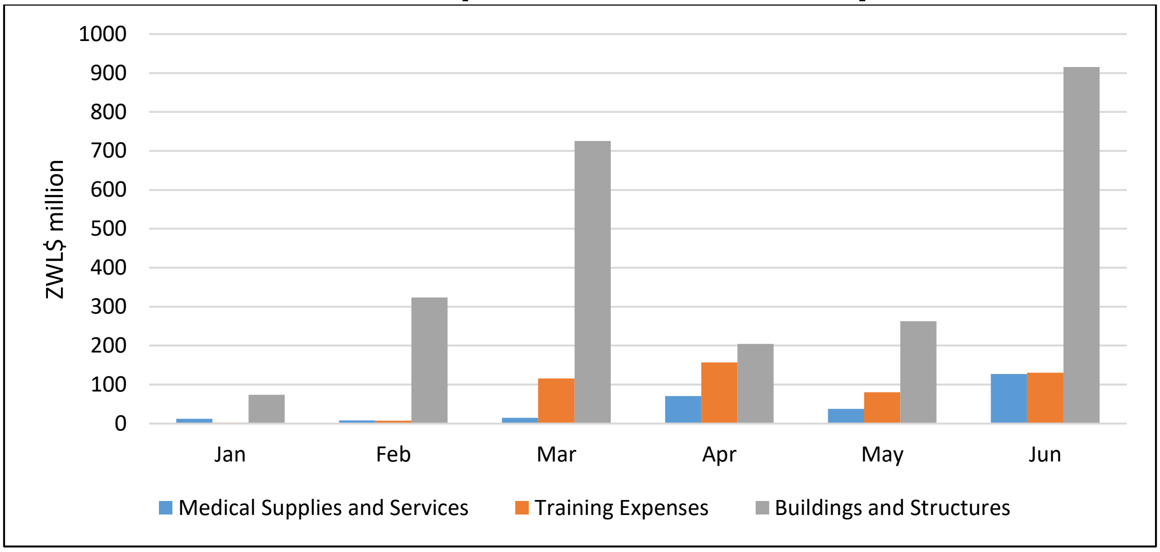
15. Consequently, total expenditure was ZWL$15.2 billion in the second quarter up from ZWL$13.8 billion during the first quarter. The expenditure target for the quarter was ZWL$17.3 billion.

Expenditure Composition, Q1 2020 vs. Q2 2020



16. As shown above, the wage bill as a share of total expenditure increased to 33.3% from 27.8% in the previous quarter. This was pushed by the hiring of additional medical staff that saw the unfreezing of 4 000 health sector posts and creation of 200 medical posts beginning April 2020 in response to the pandemic.

COVID-19-related Expenditure Heads: January-June 2020



17. Whilst expenditure for both the first and second quarters was contained within targets, priority was given to COVID-19-related spending. As shown in the graph above, the beginning of the second quarter saw an immediate and marked increase in spending for medical supplies and services as well as training of response teams.

18. Government committed to availing ZWL$200 million per month towards cash transfers to vulnerable households over the 3 months to June 2020. Consequently, at least ZWL$130 million, ZWL$606 million and ZWL$90 million, were availed in social benefits for the months of April, May and June, respectively.

19. As MDAs complied with the new thrust, capital spending tapered to 28.2% of total expenditure in the second quarter, from 36.3% in the preceding quarter. Capital spending was mostly directed towards construction and rehabilitation of health facilities being used as treatment, isolation and quarantine centres in the fight against COVID-19.

SECTOR PERFORMANCE

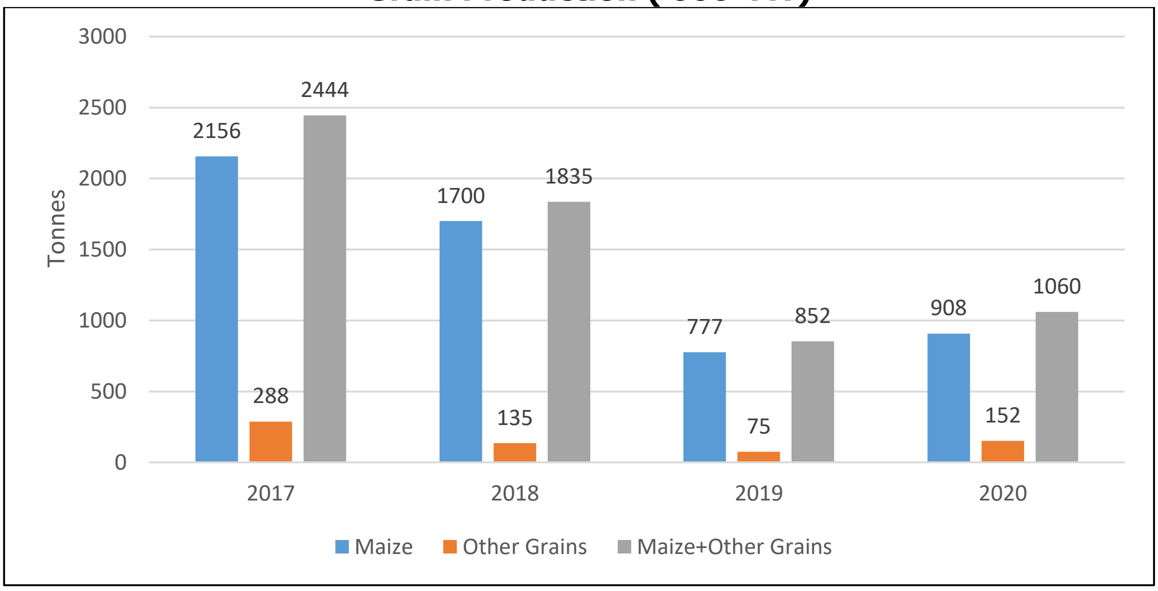
Agriculture

20. The 2019/2020 First Round Crop and Livestock Assessment Report indicates a general decline in area planted for most crops, while the Second Round Crop Assessment confirmed varied output performance for different crops.

Grains

21. The 2020 Second Round Crop and Livestock Assessment Report indicates that grain production increased by 24%, from 852 000 tons in 2019 to 1 060 000 tons in 2020. Traditional grain production for the 2019/2020 season is estimated at 152 515 MT, 103% more than the 75 209 MT produced in 2018/2019. The increase is attributed to increased support extended to farmers under the Presidential Input Scheme as well as capacity building of farmers.

Grain Production ('000' MT)



Source: Ministry of Lands, Agriculture, Water and Rural Resettlement

22. However, the total estimated grain output level of 1.1 million tons is below the human consumption requirement of 1.8 million tons annually, excluding livestock requirement estimated at 450 000 tons, annually.

Cash Crops

Tobacco

23. During the 2019/2020 agriculture season, area planted for tobacco declined by 11% to 117 049 ha, from 132 040 ha in the previous season. The decline was attributed to lower producer prices offered during the last season and discouraged farmers to grow the crop. Therefore, output for the year 2020 is expected at 194 million kgs, down from the previous year's output level of 259 million kgs.

24. Marketing of tobacco is progressing well in compliance with the World Health Organisation COVID-19 health guidelines. Furthermore, the decentralised marketing model supported deliveries as well as reducing costs to farmers.

25. As at 8 July 2020, tobacco deliveries to the auction floors stood at 129.9 million kgs valued at US$311.8 million. This is against 142.6 million kgs worth of US$261.5 million delivered during the corresponding period in 2019.

Tobacco Deliveries as at 8 July 2020

SEASONAL	Delivered from		TOTAL 2020	TOTAL 2019	% CHANGE
	Non-contracted	Contracted			
Mass sold(kg)	5,616,368	124,293,283	**129,909,651**	142,641,405	(8.93)
Value(US$)	15,391,740	296,448,399	**311,840,139**	261,478,080	19.26
Avg.price US$/kg	**2.74**	**2.39**	**2.40**	**1.83**	**30.95**

Source: TIMB

26. Average prices were 30.9% higher compared to last year at US$1.83/kg.

Cotton

27. While area planted for cotton is estimated to have decreased by 13% to 170 000 ha, output is projected to increase by 33% to around 101 000 tons, mainly due to anticipated higher yields following the adoption of hybrid seed during the 2019/20 farming season.

28. The 2020 seed cotton marketing season commenced on 3 June 2020 with six licenced buyers as follows:
    - The Cotton Company of Zimbabwe;
    - Alliance Ginners (Pvt) Ltd;
    - Zimbabwe Cotton Consortium (Pvt) Ltd;
    - Innovative Cotton (Pvt) Ltd;
    - Shawasha Agri (Pvt) (Ltd); and
    - Southern Cotton (Pvt) Ltd.

29. On 9 June 2020, Government set the floor price at ZWL$43.94 per kg of which 38% is paid in cash, US$10 per bale and the balance electronically.

30. The Agricultural Marketing Authority designated 300 Common Buying Points and deployed clerks to regulate the marketing of cotton. The marketing of the crop is also compliant with COVID-19 health regulations, including provision of PPEs and sanitizer to staff manning the depots.

31. As at 26 June 2020, 22.3 million kgs had been delivered to cotton companies with advances ranging between ZWL$1 000 and ZWL$1 500 per bale, being paid to farmers.

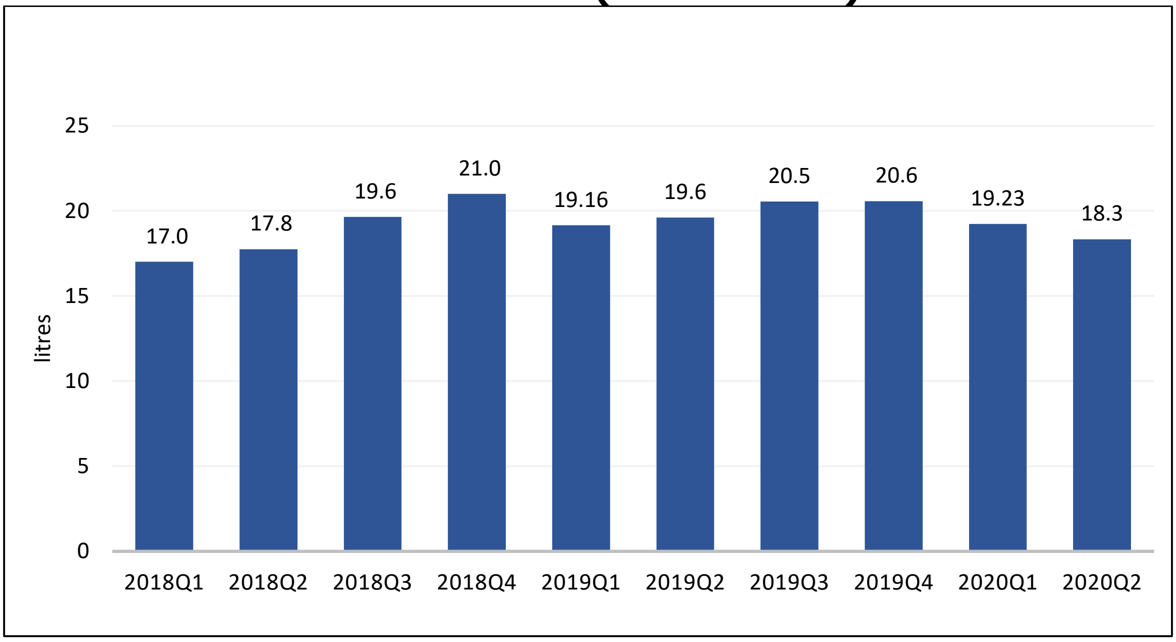
Livestock

32. Livestock production was affected by shortages of water brought about by drought, outbreak of diseases, subdued aggregate demand as well as COVID-19 pandemic.

Milk

33. Milk production during the second quarter declined by 4.6% to 18.3 million litres compared to the first quarter of 2020, where production stood at 19.2 million litres.

Milk Production (million litres)



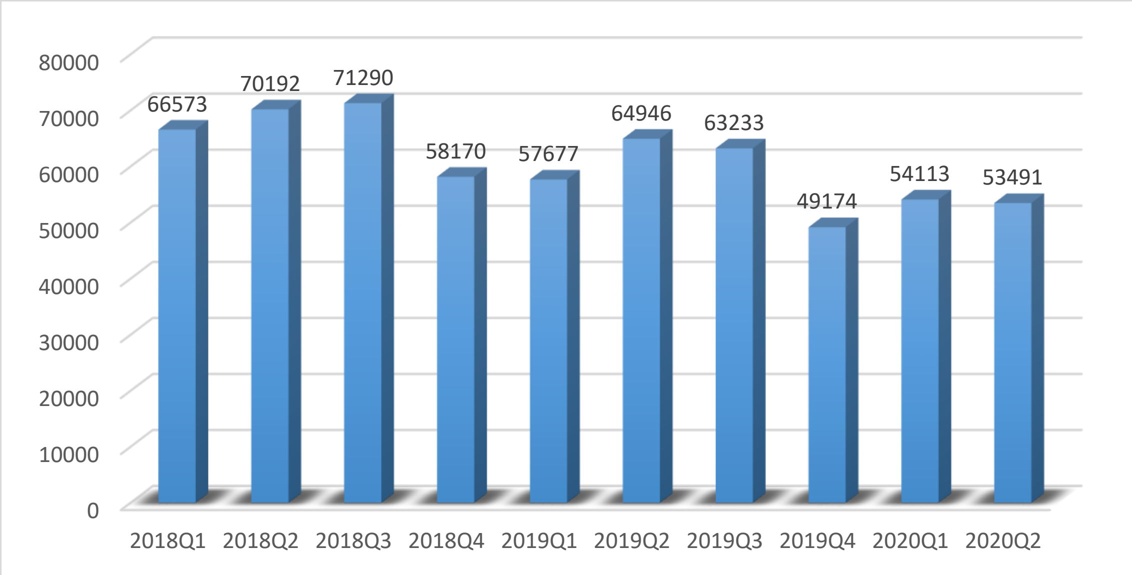
34. Marketing challenges brought by COVID-19 containment measures aggravated by drought and shortage of foreign currency, milk production is expected to take a dip in 2020 for the first time in recent years.

Beef

35. Beef production is being hampered by loss in cattle stock and low aggregate demand worsened by travel restrictions implemented Government to contain COVID-10 pandemic.

36. Consequently, cattle slaughters during the second quarter of 2020 slightly declined by 1.1% to 53 491 compared to 54 113 slaughtered during the first quarter. However, this output was higher than 49 174 slaughtered during the 4th quarter of 2019.

Cattle Slaughters



37. Beef production is expected to remain subdued for the rest of the year for the same reasons.

Mining

38. Despite the COVID-19 pandemic disruptions in the economy, the mining sector remained open as it was exempted from the nationwide lockdown after being classified as essential services. However, the sector faced logistical challenges for minerals such as gold, diamond and platinum, among others that rely on South African refineries for further processing, as well as depressed global demand.

Quarterly Mineral Production

Mineral	Q2 2019	Q1 2020	Q2 2020
Gold (kgs)	6,261.40	6,151.67	5,408.09
Platinum (kgs)	3,695.33	3,543.74	4,460.93
Palladium (kgs)	3,085.32	2,956.96	3,779.63
Rhodium (kgs)	326.74	316.70	399.07
Iridium (kgs)	228.07	215.79	298.60
Ruthenium (kgs)	211.31	205.01	224.11
Diamonds (cts)	617,043.55	540,939.73	634,605.87
Chrome (MT)	366,978.27	292,672.52	179,243.28
Nickel (MT)	3,883.70	3,935.99	3,043.80

Mineral	Q2 2019	Q1 2020	Q2 2020
Copper (MT)	2,341.64	2,118.72	1,795.88
Cobalt (MT)	102.06	321.84	50.64
Coal (MT)	643,284.90	4,836.68	970,483.50
HCFC (MT)	81,849.15	59,550.00	27,186.00
Phosphate (T)	10,337.00	13,988.50	10,949.00
Vermiculite (MT)	5,524.65	7,535.95	4,947.10

Source: Ministry of Mines and Mining Development/Chamber of Mines

Gold

39. During the second quarter of 2020, gold output dropped by 14% to 5,408 kg from 6,261 kg realised during the comparable quarter in 2019. Similarly, gold production witnessed a 12% drop compared to the first quarter of 2020, which recorded a production of 6,152 kg.

40. The lower than anticipated output is mainly on account of low deliveries largely from small scale and artisanal miners due to pricing distortions, side marketing and leakages as small-scale miners seek better margins from unregistered buyers offering attractive prices. This is notwithstanding the increase of gold retention from 55/45% to 70/30%.

41. As much as the increase is welcomed by gold producers, it has not been attractive enough to increase gold deliveries to Fidelity.

Platinum

42. Platinum output increased by 21% to register 4,461 kg during the second quarter of 2020 from 3,695 kgs produced the comparable quarter of 2019. Output increased by 28% from 3,544 kgs recorded in the first quarter of 2020.

43. The increase in output was due to increase output at Unki and Zimplats witnessed during the first two quarters of the year. Production was driven by relatively higher prices of palladium and gold which are some of the by-products of PGMs.

Nickel

44. Nickel production during the period under review dropped by 22% to 3,044 tons from 3,844 tons recorded during the similar period in 2019. The production level was also 1% lower than the 2020 first quarter production of 3936 tons.

45. Weak demand due to COVID-19 pandemic disruptions have affected base metal like nickel, copper, and ferroalloys. Nickel production was negatively affected by low ore grades and reduced international demand, lowering prices, forcing primary producers to scale down operations.

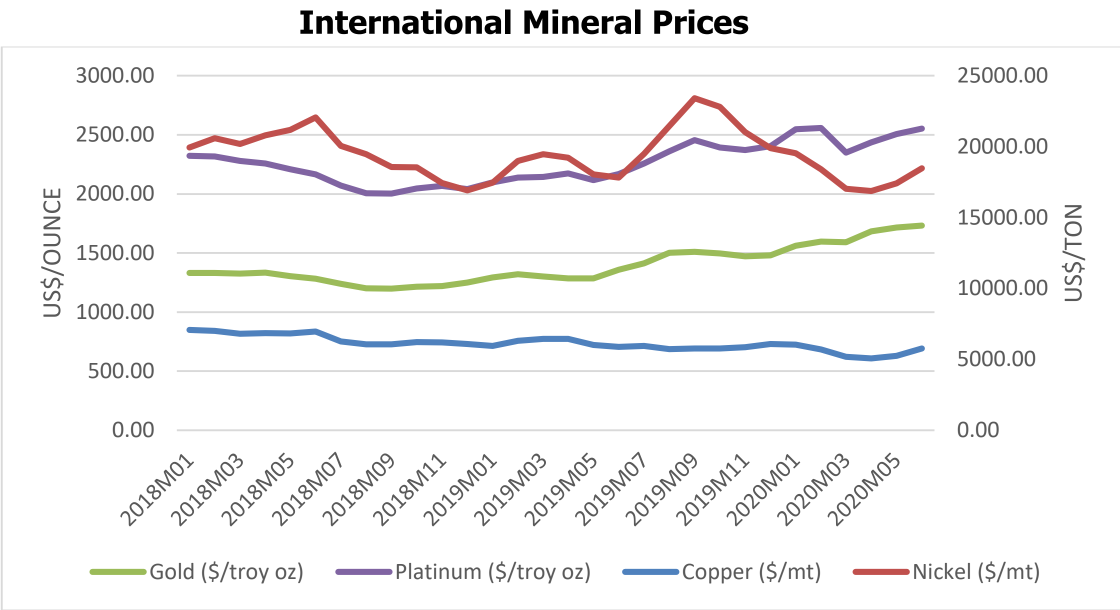
Diamonds

46. During the period under review, diamonds production increased by 3% to 634,606 carats from 617,044 carats produced during the comparable quarter of 2019. Compared to the first quarter of 2020, production increased by 17% from 540,940 carats.

47. Diamond marketing is being negatively affected by the outbreak of COVID-19 pandemic and its containment measures which have resulted in travel restrictions, depressing demand for diamond. If the situation persists diamond production is expected to decline, going forward.

International Mineral Prices

48. International prices for platinum, nickel and copper were subdued during the first quarter attributed to the decline in global demand for most primary products as a result of COVID–19 pandemic induced economic slowdown. However, during the second quarter, there was marked recovery particularly for precious metals.



Source: World Bank Commodity Price Data (The Pink Sheet)

49. Gold price has benefitted from safe haven demand which saw prices increase by 11% between January and June 2020. Against this background, it is imperative for the country to boost gold production and curb smuggling of the precious mineral to boost export revenue.

Tourism

50. In response to COVID-19 as a global pandemic, the second quarter of 2020 was marked by containment measures such as lockdowns, border closures, suspension of flights, and travel restrictions among other measures.

51. Although the disease reached most parts of Africa much later than the rest of the world, tourism activity was either suspended or facing subdued demand. As containment measures took effect and as tourists became conscious of the risks associated with travelling, most tourism facilities were completely closed.

52. The second quarter was the period when most countries experienced peak periods of infection. Although there was gradual easing of restrictions by some economies,

resurgence of rapid spread in some places forced Governments to re-institute lockdowns, some more stringent than previously.

Tourist Arrivals

53. As a result, tourist arrivals during the second quarter dipped by -98% compared to the same period in 2019. Overseas arrivals effectively dropped to zero, with 11 arrivals compared to 107 692 recorded during the same period in 2019. Arrivals from Africa dropped by -97%, from 449 559 to 12 284, roughly half of which were transit tourists.

54. Overall, arrivals during the first half of 2020 dropped by 55%, as first quarter tourist arrivals were already down by -13%.

Tourist Arrivals: Q1 and Q2 2020

1st Quarter				
	Jan – Mar 2020	Jan – Mar 2019	% Change	
Africa	417,346	471,765	-12%	▼
Overseas	68,622	86,326	-21%	▼
Total	**485,968**	**558,091**	**-13%**	▼
2nd Quarter				
	April – June* 2020	April – June 2019	% Change	
Africa	12,284	449,559	-97%	▼
Overseas	11	107,692	-100%	▼
Total	**12,295**	**557,251**	**-98%**	▼

Source: Zimbabwe Tourism Authority

55. During the second quarter of 2020, most tourism facilities were completely closed and average hotel occupancy rates plunged by 98% against comparable period in 2019. The table below shows average occupancy rates for the first and second quarter of 2020 against the previous year.

Hotel Occupancy Rates: Q1 and Q2 2020

1st Quarter	January – March 2020	January – March 2019
Hotel Occupancy	21%	41%
2nd Quarter	April – June* 2020	April – June 2019
Hotel Occupancy	*Less than 1%*	51%
Half Year Average	**11%**	**46%**

Source: Zimbabwe Tourism Authority

56. The gradual and cautious easing of restrictions has seen a few operators resume operations, albeit under the condition of strict adherence to WHO guidelines. A few hotels were authorised by Government to provide accommodation to frontline health workers and quarantine services for those with capacity to pay.

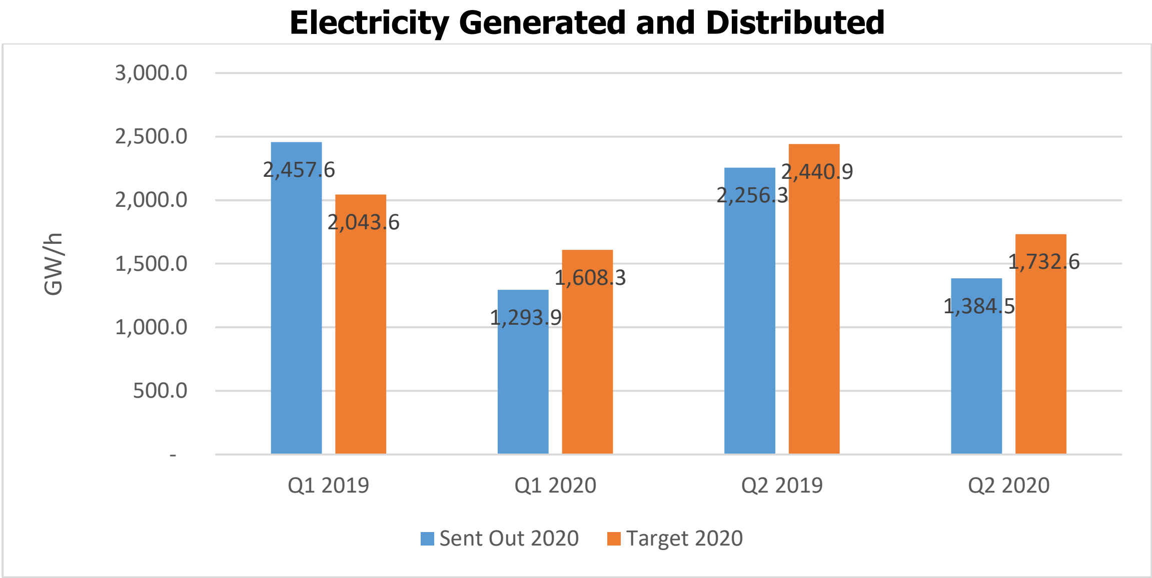
57. In the outlook period, performance of the tourism sector depends on patterns in the spread of the disease and if and when a cure or vaccination will be available. Domestic tourism remains a quick win as facilities re-open.

58. The industry's recovery is going to be anchored on the Tourism Recovery Strategy and Government support through the ZWL$500 Million Tourism Support Fund as part of the ZWL$18 billion Stimulus Package.

Electricity Developments

59. Electricity generation during the second quarter of 2020 declined by 39% to 1,384.5 GW/h from 2,256.3 GW/h generated during the comparable period in 2019. The fall in generation capacity reflects drought and the planned reduced operating levels at Kariba Power Station in order to allow the dam to fill up following a drastic fall in reserves of usable water and intermittent shutdown at Hwange Thermal due to aging equipment.

60. Compared to the first quarter of 2020, there was, however, a 7% improvement in generation capacity from 1 294.9 GW/h. The country has witnessed no load shedding during the second quarter of 2020 due to this improved generation capacity combined with consistent power imports.



Source: ZPC

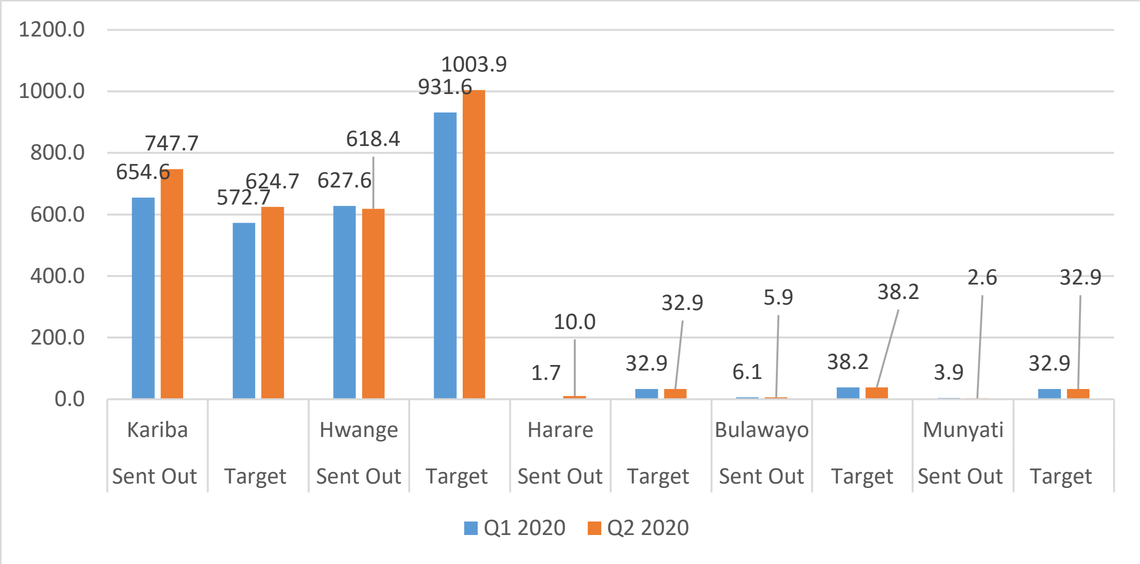
61. Constrained generation at Kariba due to reduced usable water as a result of two consecutive droughts is weighing down the country's generation capacity. However, the dam level is expected to steadily continue to rise due to increased inflows following normal to above normal rainfall in the Zambezi water catchment areas.

62. In line with increased water inflows, the Zambezi River Water Authority reviewed water allocation to Kariba Power Station by additional 0.5 billion cubic meters to 11.5 billion cubic meters bringing up generation capacity to 294MW/h from initial allocation of 275MW/h.

Electricity Generation

63. Kariba Hydro and Hwange power stations were the major source of generation, contributing 54% and 45%, respectively, while small thermals contributed 1% to the national grid during the period under review.

Generation by Units



Source: ZPC

Power Tariffs

64. During the second quarter of 2020, Zimbabwe Electricity Transmission and Distribution Company (ZETDC) adjusted electricity tariffs in accordance with the Tariff Award of 2 October 2019, which took into account the movement of macro-economic fundamentals such as exchange rate and inflation, for changes above 10%.

Approved Conventional Meter Tariffs

	KWH	Q1 2020 Cost/Unit	Q2 2020 Cost/Unit
a) Fixed Monthly Charge		$7.24	$7.24
b) Energy charge per kWh	(i)1st 50 kWh	$0.49	$0.52
	(ii) 51 to 200 kWh	$1.08	$1.14
	(iii) 201 to 300kWh	_	$3.12
	(iii) From 301	$4.61	$4.88

Source: ZETDC & ZERA

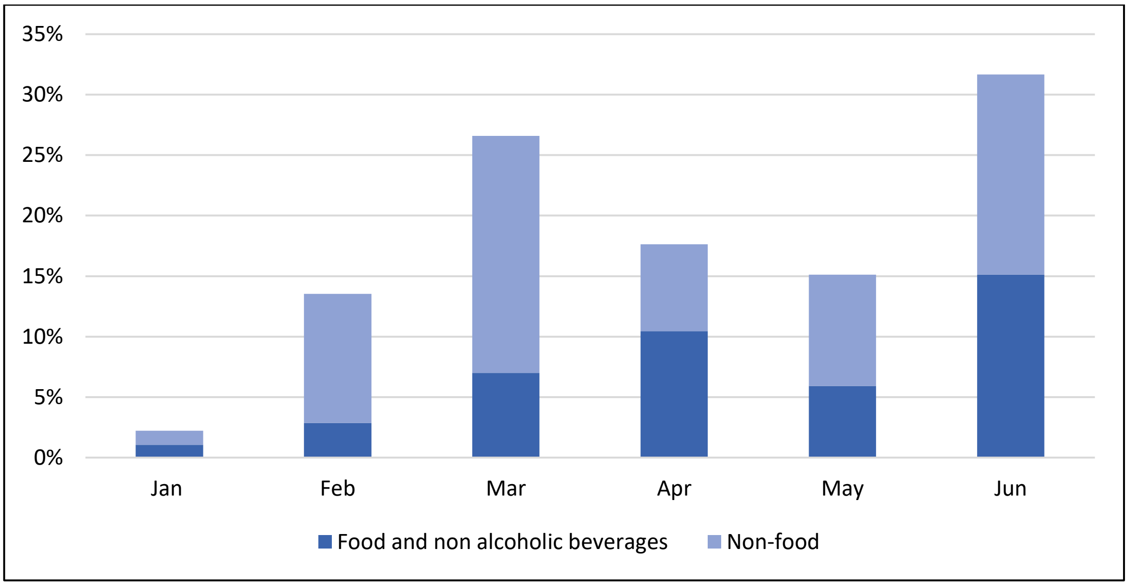
65. The tariff adjustments offer the power utility scope for improving working capital and viability resulting in improved electricity generation.

INFLATION DEVELOPMENTS

66. High inflation pressures in the first and second quarters were attributed to wide-spread practice by businesses of indexing prices to the parallel exchange rate as well as adverse market expectations and forward-looking pricing behaviour.

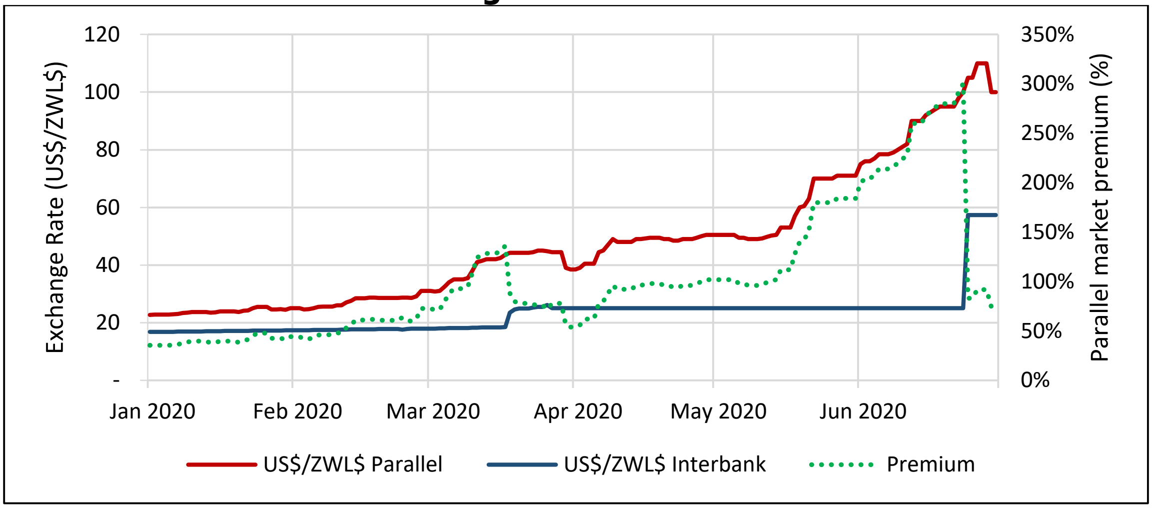
67. Monthly consumer prices increased by 17.6% in April, 15.1% in May, and 31.6% in June, while annual inflation went down from 785.5% to 737.3%. The inflationary pressures affected both food and non-food items.

Month-on-Month Inflation



Source: Zimstat

Exchange rate movements



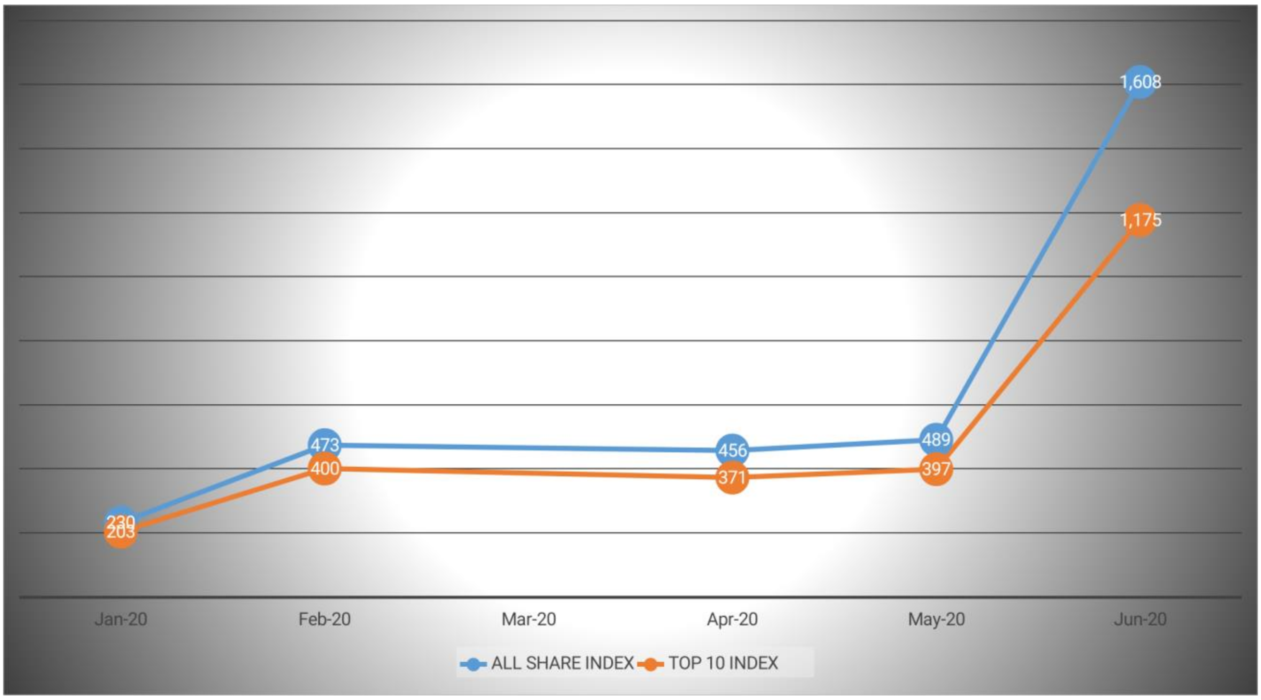
Source: RBZ

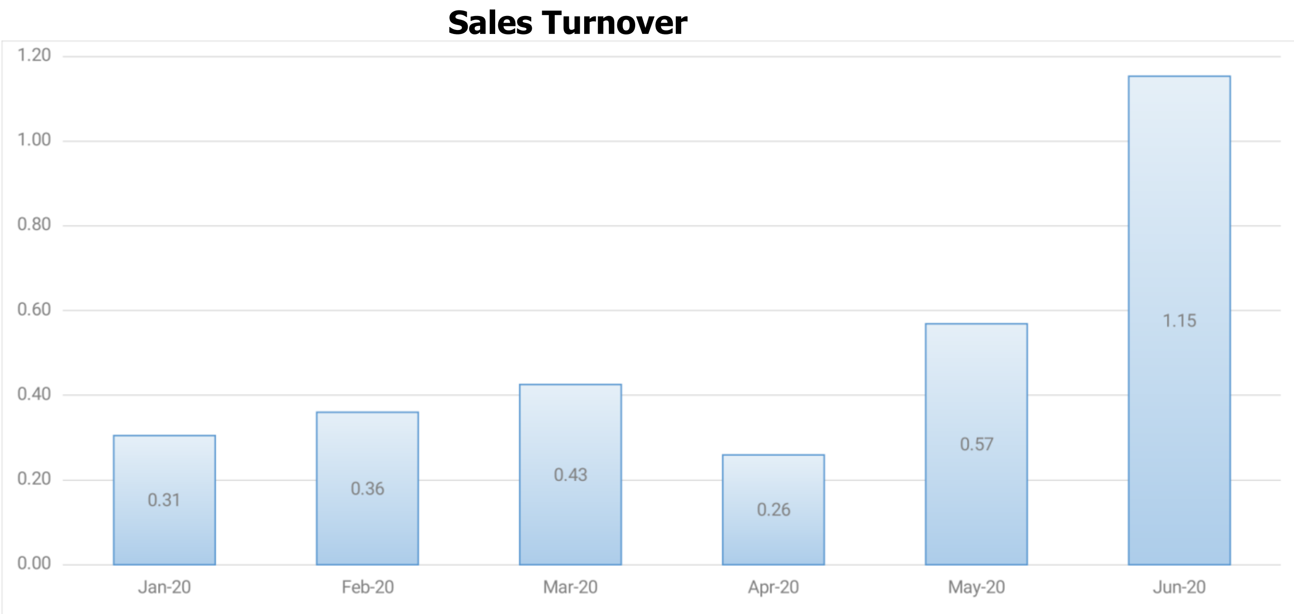
FINANCIAL SECTOR

Zimbabwe Stock Exchange

68. The benchmark index, ZSE All Share gained 598.94% during the first half year to 17 June 2020. Performance was spurred by gains in the heavyweight counters as reflected in the growth of the ZSE Top 10 counters which increased by 479.72%.

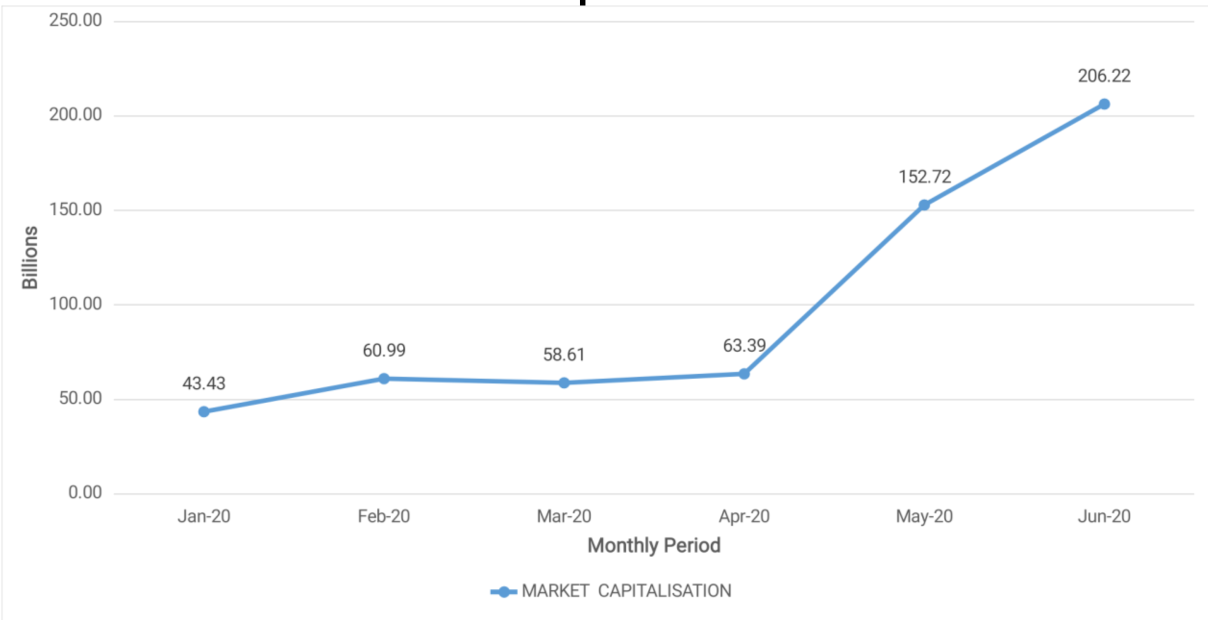
ZSE Indices-H1 2020





69. The sales turnover amounted to ZWL$1.98 billion in the second quarter of 2020, an 80% increase compared to the ZWL$1.1 billion reached during the previous quarter.

Market Capitalisation



70. The ZSE total market capitalisation recorded a new high of ZWL$206.22 billion during the first half of 2020 since the re-introduction of the local currency. The market capitalisation increased by 351.52% during the second quarter of 2020, up from ZWL$58.61 in March.

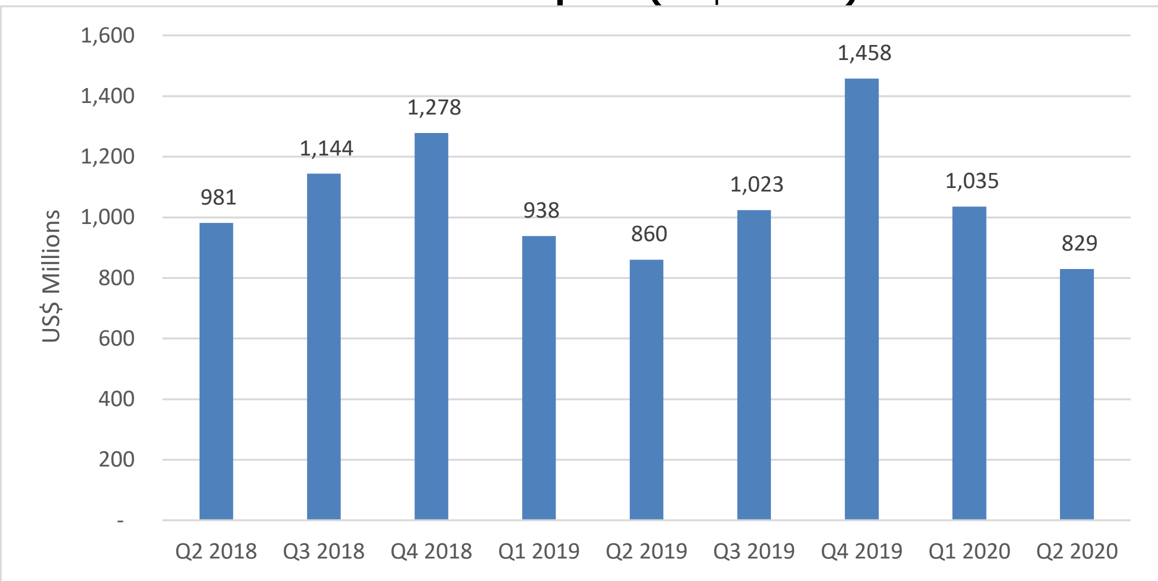
71. Trading on the Zimbabwe Stock Exchange was suspended at the end of June 2020 indefinitely to allow for investigations regarding illicit trading activities.

EXTERNAL SECTOR

Exports

72. During the second quarter of 2020, the country's merchandise exports slightly declined by 4% to US$829 million from US$860 million recorded during the comparable period in 2019.

Merchandise Exports (US$ Million)



Source: ZIMSTAT & MOFED calculations

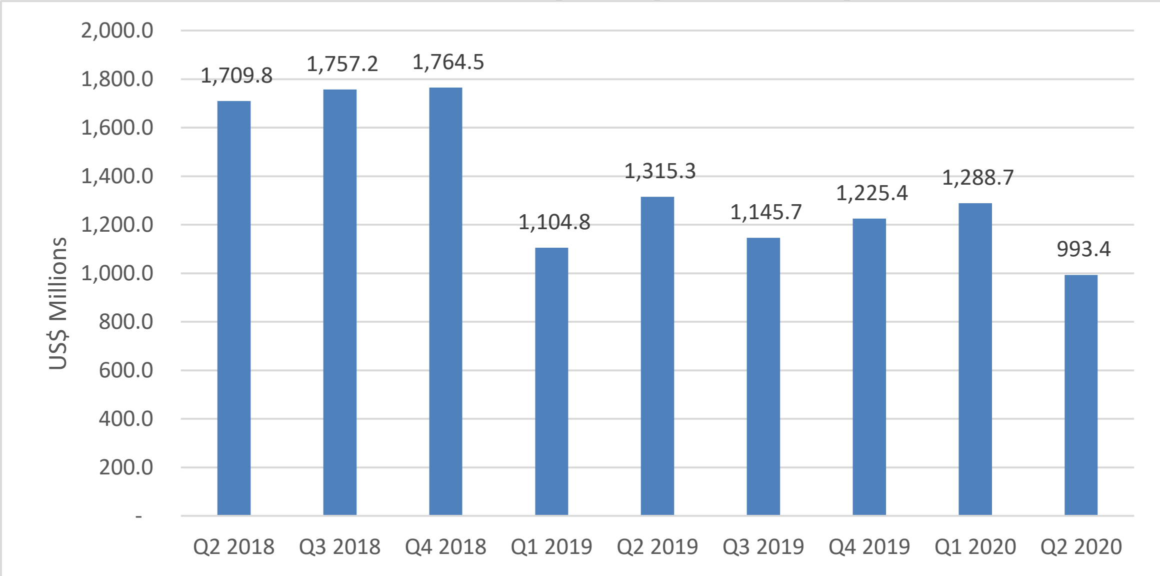
73. Exports for the period were dominated by gold which was fetching higher price, nickel mattes, nickel ores & concentrates, ferrochrome and flue-cured tobacco.

74. United Arab Emirates overtook South Africa as the country's largest export destination, absorbing 27% while South Africa absorbed 21%. Other major exports were destined to Mozambique (10%), Belgium (4%) and Uganda (2%), while the rest of the world absorbed 36% of our exports.

Imports

75. Total merchandise imports stood at US$993 million during the second quarter of 2020, a 24% decrease from US$1.3 billion accumulated during the comparable quarter of 2019.

Merchandise Imports (US$ Million)



Source: ZIMSTAT & MOFED calculations

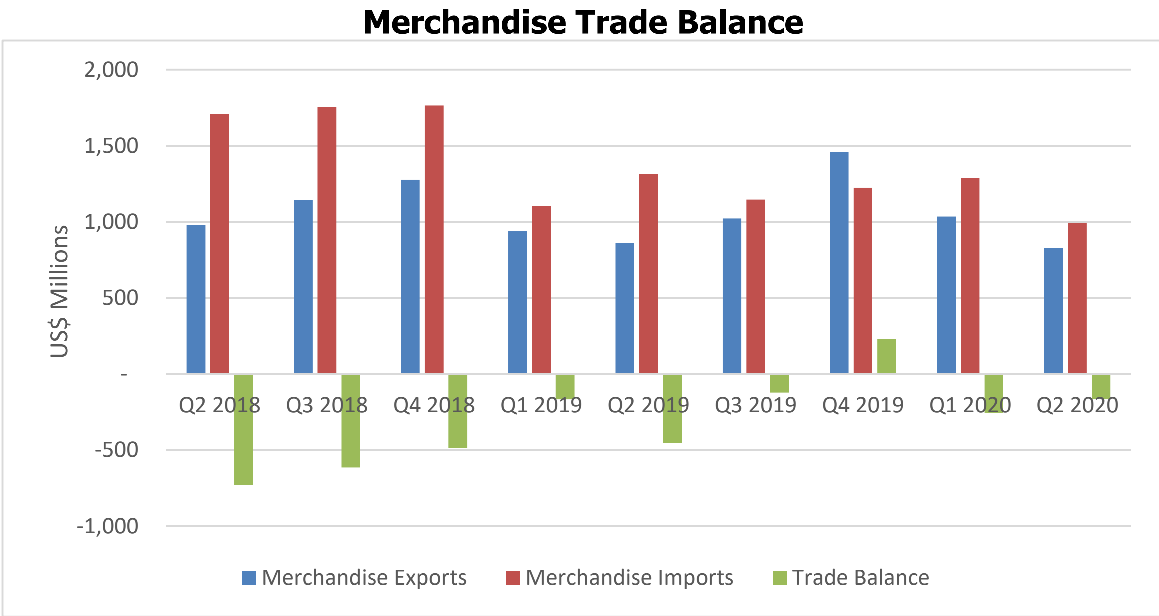
76. Maize, diesel, petrol, electricity, rice, crude soya bean oil and medicaments related products were the country's major imports during the second quarter of 2020.

77. The increase in imports of maize and medicaments related products reflects the impact of drought for the past two successive years and COVID-19 pandemic respectively.

78. The country's imports were mainly sourced from South Africa, Singapore, and China, contributing 46%, 16%, 9%, respectively, whilst the rest of the world supplied 29%.

Trade Balance

79. Resultantly, the trade deficit for the second quarter of 2020 stood at US$164 million, narrowing by US$291 million compared to the comparable period in 2019.

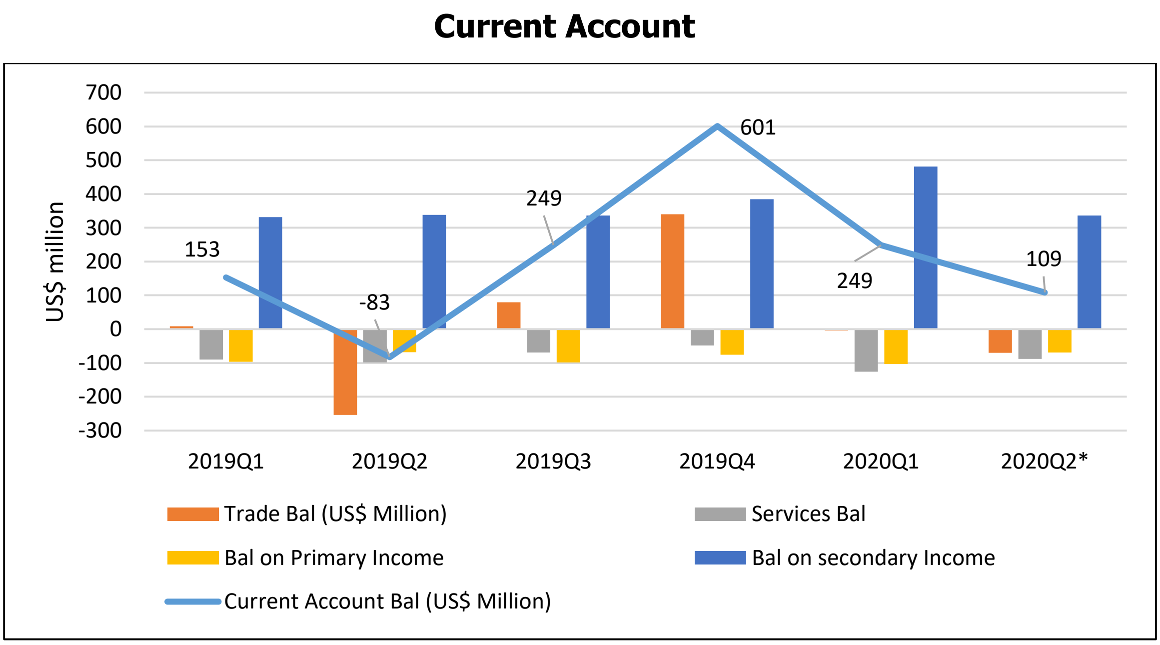


Source: ZIMSTAT & MOFED Calculations

80. The performance of merchandise trade was subdued due to shortages of foreign subdued economic activity.

Current Account

81. Notwithstanding the continuation and worsening of COVID-19 pandemic in the country affecting trade, the current account remained in surplus.



*Source: RBZ; * Projection*

82. Year-on-year, the current account is projected to improve to US$108.6 million, compared to a deficit of US$82.6 million recorded during the comparable period in 2019. However, it is lower compared to the US$248.1 million realised in the first quarter of 2020.

CONCLUSION

83. The second quarter fiscal performance remained sound, but the state of the economy is generally precarious, especially in view of the COVID-19 pandemic and related challenges. However, the economic and fiscal environment will largely depend on the evolution of the COVID-19 pandemic in the near future.

84. Government has made considerable efforts in order to contain the pandemic, as well as to cushion companies and citizens against the economic hardships it entails. These measures are under constant scrutiny and will adjust as requirements evolve.

Ministry of Finance and Economic Development
August 2020