STATE OF THE ECONOMY

MAY 2019

Ministry of Finance and Economic Development

PREAMBLE

1. Honourable Members will be aware that since the advent of the New Dispensation, Government's approach is to prioritise the economy with focus on implementing deeper reforms that promote stabilisation and growth.

2. On this basis, the adoption of the Transitional Stabilisation Programme marked the first major step towards this goal.

3. Before giving details on economic developments of our country, allow me to contextualise the current environment in the global context.

GLOBAL ECONOMIC DEVELOPMENTS

4. The global economy depicted signs of cooling down during the first quarter of 2019 on account of a confluence of different factors. Trade tensions between the USA and China which were showing signs of thawing down, are actually flaring up again posing larger disruptions in global trade and supply chains.

5. Uncertainty about the United Kingdom's departure from the European Union (Brexit) remain heightened posing a number of risks to the Euro zone and the rest of the global economy. These developments represent a drag on global trade in general, and are also reflected in lower commodity prices.

6. In addition, tightening of financial conditions in response to significant financial vulnerabilities associated with large private and public sector debt in a number of developed, emerging and developing economies restrain global expansion.

7. Global growth is, therefore, projected at 3.3% for 2019, down from 3.6% in 2018.

8. Similarly, regional growth prospects for sub-Saharan Africa remain restricted at levels well below the required 6% to deal with poverty. Notwithstanding relative macro stability in these countries through persistent fiscal consolidation reforms, the debt ratios are worsening reaching an average of 45% by end of 2017 with more countries recording ratios above 60%. Moreso, most SSA borrowing is increasingly non-concessional (commercial) against declining exports and hence, poses debt trap and exchange risks.

9. SSA economies are, therefore, projected to grow by 3.5% in 2019. I will speak to our 2018 and 2019 growth profiles below.

STATE OF THE ECONOMY

10. Beginning 2019, Government, in earnest started implementing the Transitional Stabilisation Programme (Oct 2018 - Dec 2020) through the 2019 National Budget, with sharper focus on fiscal, monetary and structural policy reforms for stabilisation and stimulation of growth.

11. These initial interventions were, however, confronted by an environment with severe economic shocks, which started from the last quarter of 2018. The situation was further heightened by drought conditions and the impact of Cyclone Idai, which all imposed serious threat to growth, initially projected at 3.1% for 2019.

12. However, the deep reforms introduced under the Transitional Stabilisation Programme are cushioning the economy from much higher deterioration and in some instances have started giving dividends.

13. In particular, the stance to tackle head on the twin deficit challenge has been a reality.

14. On a positive note, there is marked improved performance on Central Government finances, with revenues at RTGS$1.9 billion outperforming target (RTGS$1.8 billion) throughout the first quarter of 2019, to give overall positive variance of RTGS$146 million. On the other hand, expenditures were contained at RTGS$1.5 billion against a target of RTGS$1.7 billion to give savings of RTGS$218.9 million. This, as a result gave a budget surplus of RTGS$443.1 million.

15. With regards to prices, fiscal consolidation measures, reinforced with a tight monetary policy stance together with the liberalisation of the exchange rate, are containing inflationary pressures, which although still relatively high, are slowing down compared to the previous quarter.

16. Widespread indiscipline in the foreign exchange market is also a major source for parallel exchange market premiums feeding into inflation.

GROSS DOMESTIC PRODUCT (GDP) & CALIBRATION

17. Honourable Members will recall that during presentation of the 2019 National Budget, I emphasised on the necessity of well-coordinated fiscal and monetary policies, which reinforce each other for addressing the current macro-economic vulnerabilities.

18. Consequently, on 20 February 2019, the Governor of the Reserve Bank presented a Monetary Policy Statement aimed at supporting the various macro-fiscal and structural austerity measures announced in the 2019 Budget.

19. The Monetary Policy Statement also removed various distortions which prevented efficient functioning of the foreign exchange market, with implications on the rest of the economy. Such distortions also promoted the parallel market and fed into multiple pricing of goods and services.

20. Specifically, the Monetary Policy Statement:

- Introduced a new currency called the RTGS dollar, which includes electronic balances in banks and mobile platforms, bond notes and coins.
- Liberalised the foreign currency market and discarded the fixed 1:1 exchange rate peg between the US$ and the Bond note, which was at the centre of various foreign exchange price distortions.
- Established an Inter-Bank Foreign Currency Market, which comprises banks and bureaux de changes, that way providing a broad based formal platform for efficient foreign currency trading within the economy.

21. Therefore, the RTGS dollar, through the Statutory Instrument 33, in essence became a new reference currency for accounting and transacting purposes. This effectively created an exchange rate between the US$ and RTGS$, being facilitated through the Interbank Foreign Exchange Market.

22. The introduction of the RTGS$ and subsequent emergence of the exchange rate between the US$ and the RTGS$ has necessitated recalibration, starting with the base indicator – the nominal Gross Domestic Product (GDP), to reflect the appropriate RTGS$ value. Ultimately, the recalibration of the nominal GDP facilitates adjustment to the 2019 National Budget Framework approved by Parliament on 22 November 2018 and other macro-economic and fiscal indicators.

23. In tandem with this process, ZIMSTAT is also undertaking an appropriate adjustment of nominal GDP in RTGS for historical years between 2009 and 2017.

Such historical series in RTGS dollar values are important for consistency, continuity and comparison purposes.

Calibrated 2018-19 Nominal GDP

24. Honourable Members should note that the recalibration exercise is another step further in refining our GDP. While the Rebasing of National Accounts Series exercise was in line with international norms, which require replacing of the old base year, *taking cognisance of changes in structure of the economy,* the current recalibration exercise, however, seeks *to reflect the appropriate GDP value in the new currency - the RTGS$.*

25. The initial steps have involved recalibration of the current estimated 2018 and 2019 nominal GDP projections into RTGS dollars using standard methodologies, which takes account of annual average market exchange rates to those subsectors where transactions took place in US dollars, together with appropriate adjustments by the GDP deflator/inflation developments and updated GDP growth rates.

26. The calibration technical exercise culminated into projected nominal GDP of RTGS$42.8 billion for 2018 and RTGS$70.3 billion for 2019 as indicated under the following Macro-framework.

Revised GDP Projections

	2017	2018 Rev	2019 Rev
Output and prices			
Real GDP growth[1/]	4.7	6.2	
Nominal GDP (US$ millions)	22,041	23,113	22,679
Nominal GDP (LCU millions)	27,438	42,777	70,304
GDP deflator	26.0	50.7	67.9
CPI (annual average)	0.9	10.6	80.8
CPI (end-of-period)	3.4	42.1	49.6

Exchange rate			
RTGS:USD exchange rate (annual average)	1.3	2.0	3.7
RTGS:USD exchange rate (end-of-period)	1.3	3.5	3.5

27. The new recalibrated nominal GDP of RTGS$42.8 billion in 2018 reflects updated higher GDP growth of 6.2% against the initial estimate of 4%. Stronger growth in overall nominal GDP 2018 was on the back of stronger performances in mining and agriculture, water and electricity generation sectors.

28. However, in 2019, GDP growth is expected to be weighed down by the impact of the un-favourable El-Nino induced drought, the devastating destruction of Cyclone Idai, foreign currency shortages and constrained spending being imposed by fiscal reforms.

Revised Fiscal Framework: 2019

29. The recalibrated nominal GDP facilitated the development of an updated 2019 Fiscal Framework, with total expenditures of RTGS$12.2 billion, against anticipated revenue collections of RTG$9.3 billion.

2019 Revised Fiscal Framework

	2017	2018	2019	
	Act.	Prel.	Orig Budget	Rev. Budget
Revenue and grants	**3,870**	**5,491**	**6,199**	**9,367**
Tax revenue	3,628	5,000	6,037	8,598
Personal income tax	729	856	971	1068
Corporate income tax	485	802	784	1034

	2017 Act.	2018 Prel.	2019 Orig Budget	2019 Rev. Budget
Other direct taxes	203	261	295	344
Customs	295	433	485	631
Excise	676	909	944	2000
VAT	1,075	1,363	1,697	2,150
Other indirect taxes	165	377	862	1372
Non-tax revenue	242	491	162	769

	2017 Act.	2018 Prel.	2019 Orig Budget	2019 Rev. Budget
Grants	0	0	0	0
Expenditure and net lending	**6,573**	**7,895**	**7,765**	**12,271**
Current expenditure	**4,831**	**5,220**	**5,728**	**8,073**
Employment costs	3,495	3,935	4,050	4,646
Wages & salaries (incl. grants & transfers)	2,978	3,382	3,456	4,042
Pensions	517	553	594	604
Interest payments	233	368	351	899
Foreign	68	43	24	176
***Of which:* Paid**	68	6	24	106
Domestic	165	325	327	723
Goods & services	887	703	719	1,771
Current transfers	216	214	608	756
Capital expenditure and net lending	**1,742**	**2,675**	**2,037**	**4,198**
Capital transfers [1/]	1,193	1,735	1,007	1,937
Other capital expenditure	145	542	862	2,093
Net lending	404	398	168	168

	2017 Act.	2018 Prel.	2019 Orig Budget	2019 Rev. Budget
as % of GDP				
Overall balance (commitment basis)	**-2,703**	**-2,403**	**-1,566**	**-2,904**
Primary balance (commitment basis) 2/	-2,471	-2,035	-1,215	-2,005
Overall balance (cash basis)	**-2,703**	**-2,366**	**-1,566**	**-2,834**
Primary balance (cash basis) 2/	-2,471	-1,999	-1,215	-1,935

Source: Ministry of Finance and Economic Development

30. The review of revenues for 2019 takes into account the expected impact of higher levels of inflation and exchange rate developments as well as other macro developments and changing priorities.

31. On the other hand, total expenditures were revised to reflect the wage and salaries adjustments already processed for civil servants, cost escalations arising from the projected exchange rate of US$ to RTGS$ on goods and services, operations, infrastructure projects and interest rates.

32. Furthermore, expenditures take cognisance of un-anticipated budgetary costs related to drought and infrastructure restoration and social needs arising from cyclone Idai.

33. Detailed Revised 2019 National Budget Estimates will be presented together with the forthcoming 2019 Mid-Term Fiscal Review in July 2019.

SECTOR PERFOMANCE

Agriculture

34. The first quarter marks the end of the 2018/19 agriculture season. This year's second half of the 2018/19 season was characterised by a dry spell, especially on the southern parts the country.

35. Generally, in most parts of the country, crops were showing signs of moisture stress with condition ranging from poor to good depending on the amount of rainfall received in respective areas.

36. In addition, cyclone Idai brought some floods in Manicaland and Masvingo Provinces which destroyed crops and livestock worsening the already severe situation.

The First Round Crop and Livestock Report

37. The First Round Crop and Livestock Report indicated a general increase in area planted for major crops except for some grains and few other small crops which recorded a decline.

38. However, most crops succumbed to dry spell with significant area planted expected to be written off especially in the southern parts of the country. In other parts of the country, early planted crop stood a chance to be harvested while the late planted crop is most likely to be written off.

Area Planted (Hactares)

Crop	2018/2019	2017/2018	Change (%)
Maize	1 604 850	1 722 718	-7
Sorghum	193 248	180 625	7
Pearl millet	150 570	157 366	-4
Finger millet	25 770	25 850	0
Rice	845	1 005	-16
Tobacco	125 670	104 395	20
Soyabean	55 141	40 479	36
Cotton	206 992	200 591	3
Groundnut	205 409	294 601	-30

Sesame	16 181	8 208	97
Sunflower	21 258	8 928	138
Round nut	100 668	47 594	112
Cowpeas	525 172	705 801	-26
Sugar bean	27 025	36 999	-27
Sweet potatoes	16106	37 871	-57
Cassava	584	3 151	-81

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

39. While the full impact of the drought and the recent cyclone Idai on crop and livestock production is not yet clear, agriculture production for 2018/19 agriculture season is expected to substantially decline.

40. The final outturn for agriculture production is expected to be indicated in the ongoing Second Round Crop and Livestock survey.

Grain Stocks

41. Grain stocks at GMB stood at 876 000 tons as at the end of March 2019, comprised of 776 000 tons of maize and 100 000 tons of small grains.

	January 2019	February 2019	March 2019
Maize (tons)	1,035,474	861,854	776,040
Small Grains (tons)	105,881	101,978	100,456
Total Grains	**1,141,354**	**963,832**	**876,496**

42. The stocks are adequate for human consumption for the next 7 months. However, in view of the current drought, importation is inevitable before the next harvest.

Winter Wheat

43. Winter wheat planting is in progress, with about 2 700 hectares having been planted as at 5 May 2019 out of 77 000 targeted hectares. The recommended winter wheat planting deadline is 31 May.

44. Of the planted hectrage, 2 600 hectares is under Command Agriculture Programme with the remainder being private sector initiative.

Tobacco

45. Tobacco auction floors opened on 20 March 2019, with only 3 888 kgs being delivered to floors on the day compared to 165 105 delivered on the same day last year.

46. Average buying price on the opening day was 17% lower, at US$1.83 per kg, compared to US$2.22 paid the same day last year.

47. As at 29 March 2019, about 538 147 kgs had been sold through the auction floors at an average price on US$1.67 per kg. This falls short of 6.8 million kgs delivered the same period last year at an average price of US$2.78.

48. However, by 5 May 2019, more deliveries were received to reach 59.8 million kgs cumulatively, valued at US$106.3 million, although average prices remained depressed below US$2 per kg.

Tobacco Deliveries as at 5 May 2019

SEASONAL	Tobacco from Private Farmers	Contracted Tobacco	TOTAL 2019	TOTAL 2018	% CHANGE
Mass sold(kg)	10,979,346	48,897,856	**59,877,202**	87,280,749	(31.40)
Value(US$)	17,909,859	88,412,364	**106,322,223**	250,315,868	(58)
Avg.price US$/kg	**1.63**	**1.81**	**1.78**	**2.87**	**(38.09)**

Source: TIMB

Progress on 99 Year Leases

49. Government and Bankers Association of Zimbabwe agreed on the revised 99 Year Lease agreement in 2017. The revision enables the transferability of land in the event of default which was a major requirement by financial institutions.

50. In this regard, it is Government`s expectation that farmers issued with the new Lease Agreements are able to borrow using the revised 99 Year Lease Agreements as collateral.

51. Any concerns from banks regarding the new 99 Year Lease Agreements are being addressed as and when they arise and in some instances on case by case basis.

Compensation

52. As outlined in the TSP, Government is committed to finalise compensation to all former farmers affected by the Land Reform Programme, in accordance with the country's Constitution and Zimbabwe's obligations under bilateral agreements.

53. The process also involves valuation of assets to ascertain the extent of Government`s obligations to former commercial farmers. Owing to the huge magnitude of resource requirements for this issue, Government is also engaging development partners and other relevant bilateral countries with a view of mobilising the requisite resources.

54. Meanwhile, since 2009 to date, a total of US$60.4 million was paid to 93 former commercial farm owners as compensation for immovable improvements. Of this, in 2018 alone, US$12 million was paid towards the same to 29 farmers.

55. The 2019 National Budget set aside US$53 million for the same purpose targeting the old and the distressed former commercial farmers. Government and representatives of former farm owners have been working together in identifying qualifying beneficiaries and the process is now complete. Currently, Government is in the process of vetting the identified members as a verification exercise to trigger disbursements.

56. Government would once again want to reiterate that compensating the affected farmers is a noble idea and is in keeping with our Constitutional dispensation.

Land Audit

57. In 2018, His Excellency, President Emmerson Mnangagwa ordered an expeditious completion of the land audit, which is expected to rationalise ownership and farm sizes.

58. Consequently, the Zimbabwe Land Commission (ZLC), undertook the first phase of the National Agricultural Land Audit which was conducted in 10 districts across the country's 10 provinces between October and November last year. This only constituted 6 percent of the targeted land, covering more than 18 000 farmers.

59. The audit indicated gross underfunding of the agricultural sector and recommended the establishment of a Land and Agricultural Bank to facilitate funding for resettled farmers. It further recommended an integrated Land Information Management System (LIMS) to address shortcomings related to fraudulent land allocations,

rampant illegal leasing of land parcels and gross underutilisation, which is materially affecting agricultural output.

60. Preparations for the second phase would be rolled out at the end of May in all the remaining districts across the country's 10 provinces**.**

61. The land audit will help inform Government's agricultural policies, development of strategies for increasing productivity and also promote social equity and environmental sustainability.

Mining

62. Government is seized with addressing challenges facing the mining sector and this mainly relate to foreign currency shortages. The objective is to reverse output losses experienced during the first quarter where all minerals except for chrome were subdued compared to the similar quarter of 2018.

Quarterly Minerals Output

	2016 Q1	2017 Q1	2018 Q1	2019 Q1
Gold/kg	5 105	5 044	7 740	6 965
Nickel/t	4 874	4 010	4 747	3 816
Coal/t	754 319	362 964	655 477	305 782
Chrome/t	12 624	329 232	409 826	419 486
Platinum/kg	4 321	3 552	3 744	3 417
Paladium/kg	3 463	2 948	3 087	2 825
Diamonds/carats	656 561	567 285	897 369	461 348

Source: Ministry of Mines and Mining Development

63. Looking ahead, 2019 overall projected output targets are achievable with most key minerals such as gold, nickel, chrome and platinum first quarter contributions constituting more than 20% of total expected output of the year.

2019 Q1 Mineral Performance vs Target

	2019 Target	Q1 Outturn	Q1 Outturn as % of Total Target
Gold/kg	35 000	6 965	20
Nickel/t	18 000	3 816	21
Coal/t	3 400 000	305 782	9
Chrome/t	1 800 000	419 486	23
Platinum/kg	14 257	3 417	24
Palladium/kg	12 200	2 825	23
Diamonds	3 500 000	461 348	13

Source: Ministry of Mines and Mining Development

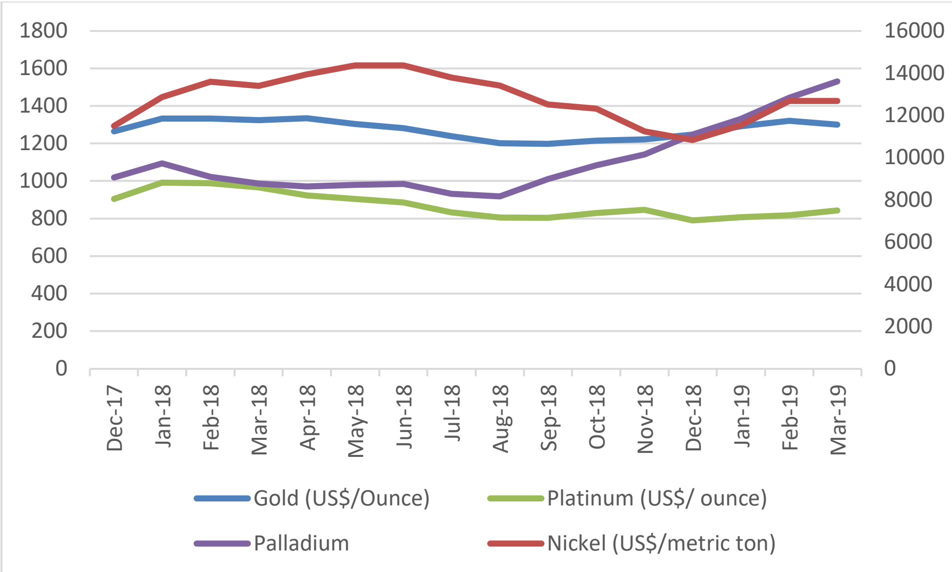
International Mineral Prices

64. Average gold prices for the first quarter of 2019 improved by 6%, to an average of US$1 304/ounce from US$1 228/ounce in the last quarter of 2018.

65. At the same time platinum prices were relatively flat with an average of US$822/ounce.

66. Palladium prices increased to US$1 435 in the first quarter of 2019 from US$1 157/once recorded in the last quarter of 2018

International Prices for Selected Minerals



Source: World Bank

Manufacturing

67. Performance of the manufacturing sector continues to be restrained by challenges related to financing, utilities, inputs supply and foreign currency availability. The sector is therefore expected to record marginal growth of 0.1% in 2019.

Manufacturing	2016	2017	2018	2019	2020
Growth Rate	**0.9**	**1.0**	**1.3**	**0.1**	**9.2**
Foodstuffs	*100.0*	*101.0*	*101.8*	*101.4*	*105*
Drinks, Tobacco and Beverages	*97.8*	*98.5*	*99*	*98.5*	*102.9*
Textiles and Ginning	*78.0*	*80.0*	*80.1*	*80*	*82.5*
Clothing and Footwear	*95.0*	*95.0*	*95.6*	*96.0*	*98.0*
Wood and Furniture	*96.2*	*98.2*	*98.3*	*98.5*	*110*
Paper, printing and Publishing	*90.4*	*91.0*	*96*	*93*	*96*
Chemical and Petroleum Products	*87.4*	*88.0*	*89*	*90*	*110*

Non metallic mineral products	*144.0*	*143.2*	*143.5*	*146*	*160*
Metals and Metal products	*66.5*	*70.0*	*73*	*73*	*90*
Transport, Equipment	*66.0*	*66.0*	*66.5*	*67*	*90*
Other manufactured goods	*66.7*	*66.7*	*67*	*68*	*69*
Manufacturing Index	***90.7***	***91.6***	***92.8***	***92.9***	***101.4***

68. Output drivers for this marginal growth include food staffs and non-metallic mineral products with the rest of the other sub-sectors constrained.

69. In the outlook, the performance of the sector is expected to benefit from improved investment following the latest round of Ease of Doing Business Reforms and the enactment of the ZIDA Bill which is now before Parliament.

70. In addition, the Local Content Policy being finalised will support domestic firms increase production through utilisation of local factors of production.

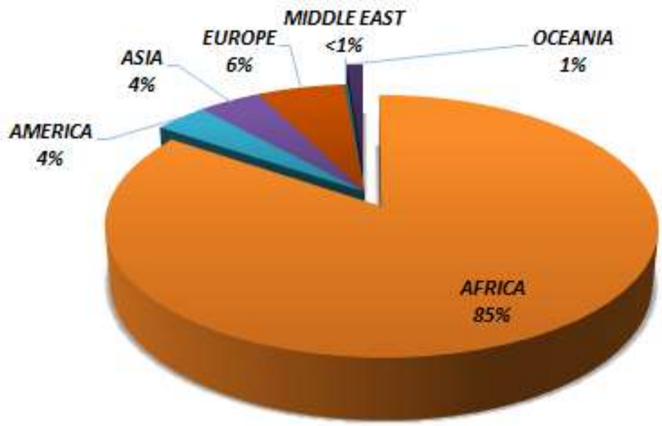
71. It remains critical that as Government we explore private sector financing facilities required for supporting industry recovery, production as well as exporting.

Tourism

Tourist Arrivals and Receipts

72. Zimbabwe recorded a 1% increase in tourist arrivals during the first quarter of 2019 at 558,061 from 554,417 recorded during the same period in 2018. The marginal growth was driven by a 6% increase in arrivals from the African Markets.

Regional Market Shares First Quarter, 2019



Tourist Arrivals by Region - First Quarter, 2019

	2019	2018	*% Change*
AFRICA	471,741	444,907	*6%*
AMERICA	20,769	24,859	*-16%*
ASIA	24,208	27,929	*-13%*
EUROPE	33,463	45,863	*-27%*
MIDDLE EAST	1,477	2,155	*-31%*
OCEANIA	6,403	8,704	*-26%*
TOTAL	**558,061**	**554,417**	***1%***

73. With regards to arrivals from sources outside the African region, the USA & UK remain the top overseas source markets in-terms of volume while South Korea fell by one place paving way for Japan to become the third largest overseas market for Zimbabwe. Singapore becomes the new entry into the top ten overseas markets after rising in arrivals by 134% to 2,404 from 1,026 in 2018.

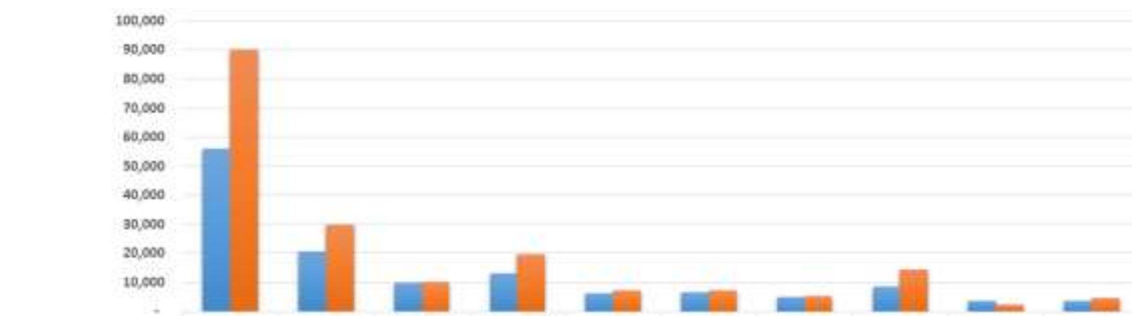
74. The decline in overseas tourist arrivals saw international tourism receipts receding to an estimated $205.8 million from $224.1 million of 2018.

Hotel Occupancy

75. The first quarter is usually associated with the low activity for the tourism industry, with improvements being recorded in the second quarter. Hence, during the first quarter of 2019, average hotel occupancy ranged between 32-40% against 44-62% of 2018, also reflecting challenges with the economic environment.

76. Foreign tourism trends also cascaded to domestic tourism with first quarter of 2019, domestic room nights being 133,216 against 193,804 in 2018 representing a 31% decrease.

2019/18 Domestic Room Night Utilization



	Harare	Bulawayo	Victoria Falls	Mutare/Vumba	Nyanga	Midlands	Masvingo	Kariba	Hwange	Beitbridge
Room Nights 2019	56,058	20,573	9,729	13,223	6,395	6,579	4,909	8,674	3,470	3,607
Room Nights 2018	89,965	29,899	10,256	19,535	7,168	7,274	5,349	14,290	2,316	4,752

Foreign Investment

77. During the first quarter of 2019 the sector registered 3 new Foreign Direct Investments (FDI) worth US$6.4 million against US$78 million received during the same period in 2018.

Tourism FDI Projects Registered 2019/2018

Year	Number of Projects	Total Investment Projection (US$)
2018	5	78,150,000.00
2019	3	6,426,000.00

78. Meanwhile, Government is addressing challenges associated with foreign and fuel shortages and infratsructure in support of the sector.

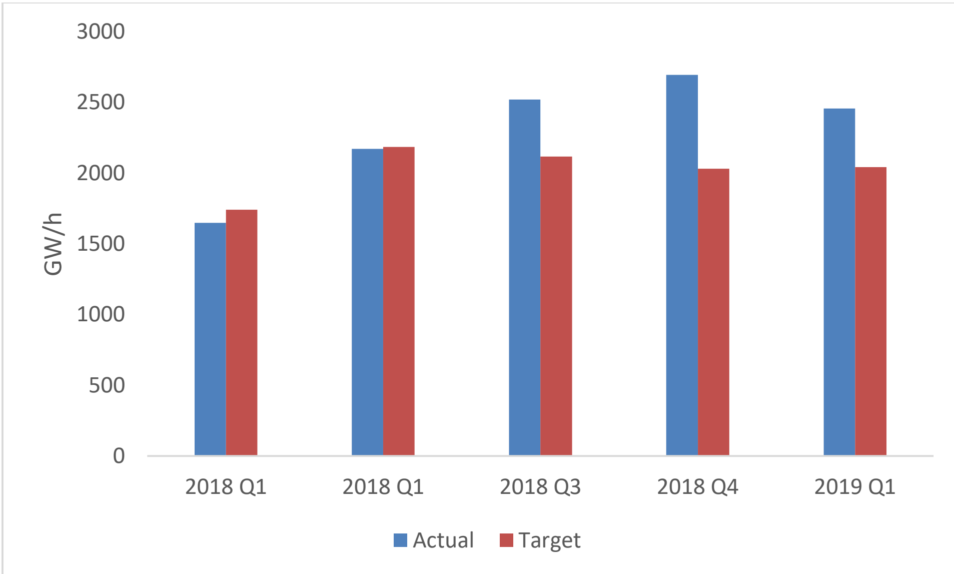
Energy

Electricity

79. Electricity generation during the first quarter of 2019, although higher than target, was relatively lower compared to the last quarter of 2018. Reduced production trend is attributable to lower water allocation at Kariba hydro power station following erratic rainfall over the Zambezi Catchment Area. In addition, generation instability at thermal power stations has been worsened by inconsistent coal supply.

80. Higher demand particularly during the just started winter season against reduced supply has given rise to load shedding.

Quartely Electricity Generated and Sent Out



81. In the outlook, electricity generation is expected to remain constrained during the larger part of the yaer before the rain season.

82. Given the situation, Government is, is working on increasing imports from the region, among other interventions.

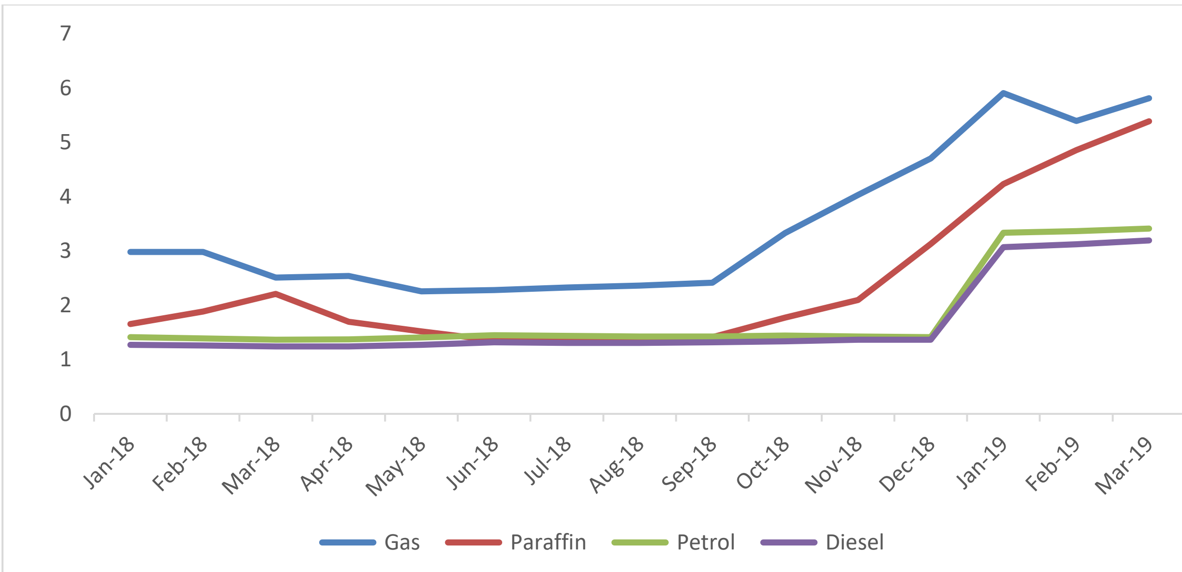
Fuel

83. The country is facing erratic fuel supplies which negatively impact on industry operations as well as transportation. Key factors that explain this challenge include growth demand owing to increases in number of automobiles, economic activities of economic players and limited financial capacity to import.

84. It has also been observed that owing to pricing distortions, fuel leakages were being experienced driven by arbitrage activities as the fuel locally was too cheap relative to other regional countries.

85. In order to curb arbitrage and leakages in the fuel sector, Government in January adjusted the prices of diesel and petrol by 150%. Since then, fuel prices except for gas and paraffin have generally remained stable.

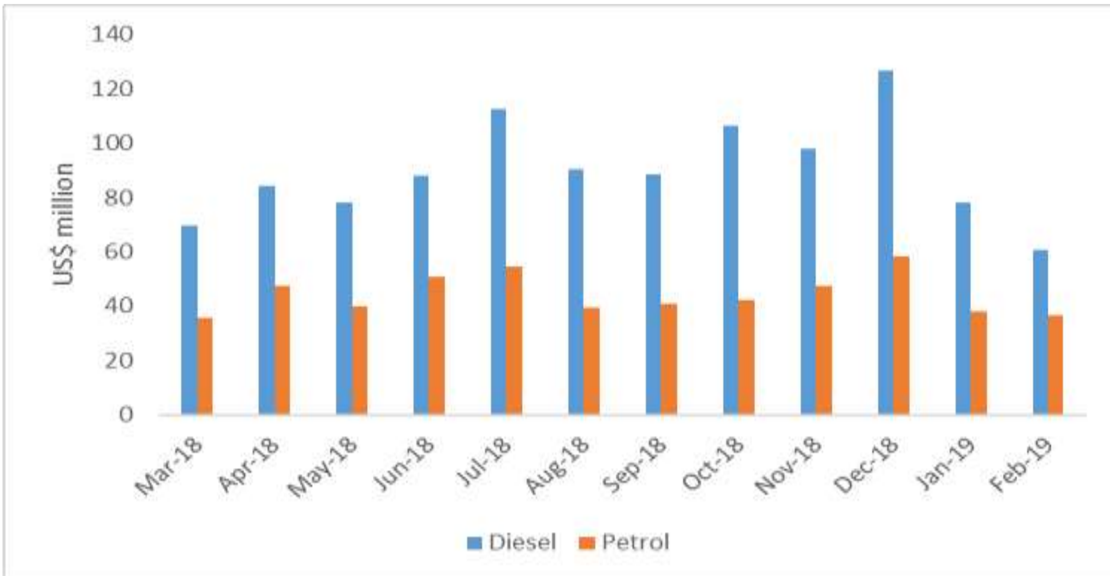
Prices of Petroleum Products



86. Similarly, the usage of diesel and petrol in the country has slowed down.

87. Diesel valued at US$138.7 million was imported during the first two months of the year compared to US$224.8 million of the last two months of 2018. On the other hand, petrol worth US$74.3 million was imported over the same period compared to US$105.5 million of the last two months of 2018.

Fuel imports



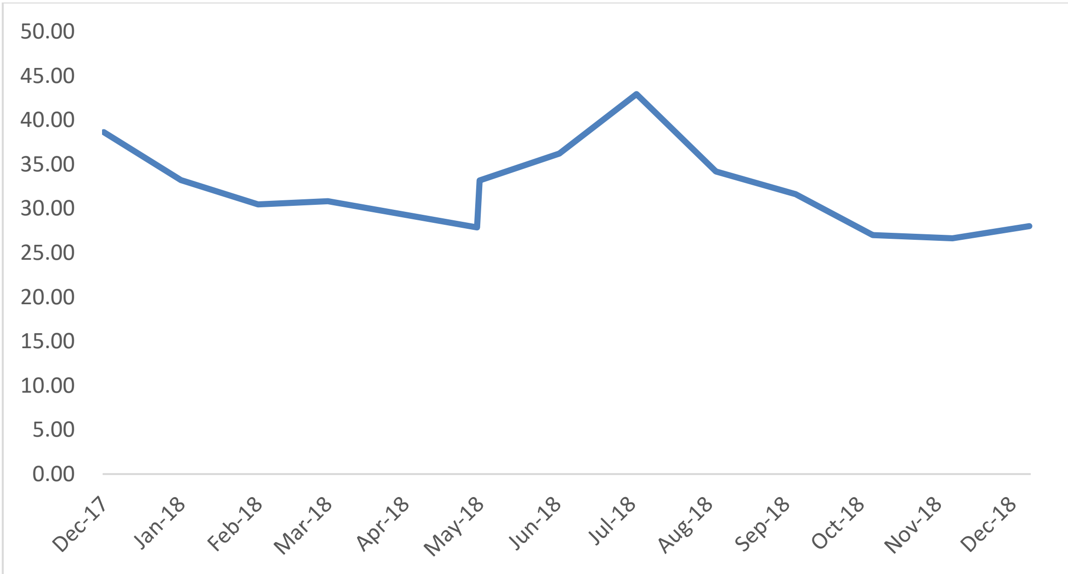
Source: ZERA

88. Government is making arrangements to ameliorate the fuel supply situation.

INFLATION DEVELOPMENTS

89. Inflationary pressures, despite remaining relatively high, slowed down compared to the previous quarter. This reflects the positive impact of fiscal consolidation, liberalisation of the exchange rate, and the tight monetary policy measures.

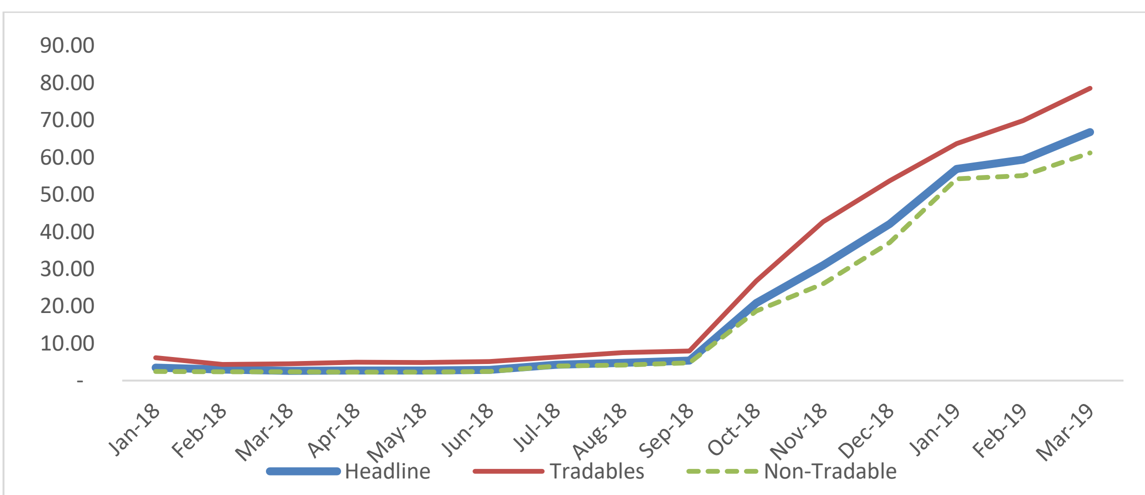
90. Indeed, annual broad money supply growth has significantly slowed down from 45% in July 2018 to current levels of around 25%. This declining trend is expected to continue during 2019 consistent with TSP targets.



91. Declining money supply growth is a key factor in containing inflation.

92. Month on month inflation, during the quarter averaged 5.6% against 11.5% of the last quarter of 2018. Due to the elevated base, annual inflation recorded 57.6%, 59.6% and 67.8%, in January, February and March, respectively.

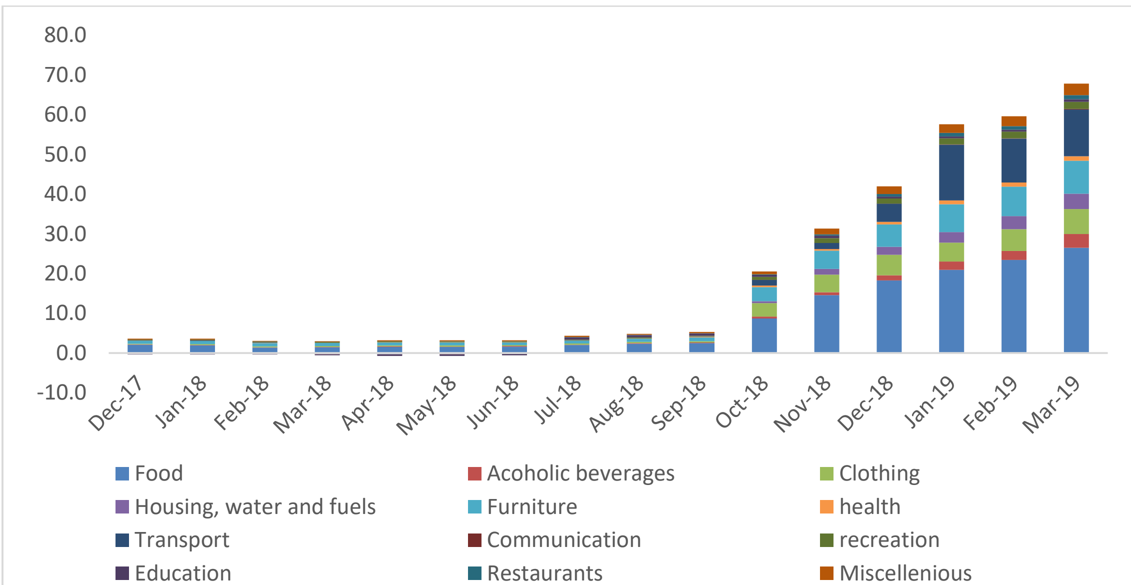
Inflation Profile



93. The parallel exchange market premiums remain the major source of inflation driving up prices, particularly of tradable goods.

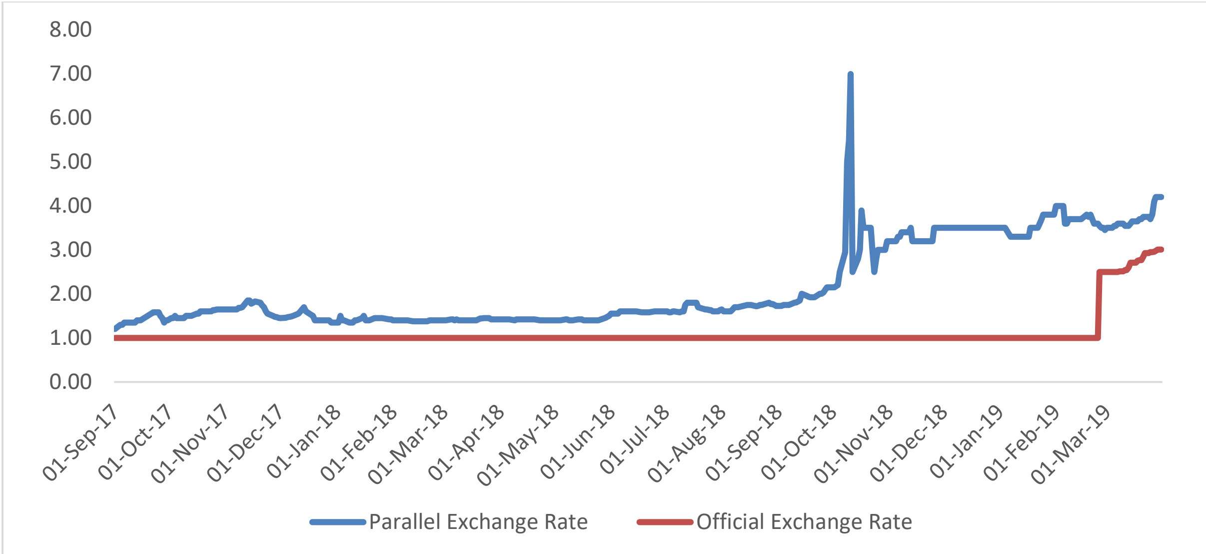
94. During the quarter, food and non-alcoholic beverages, restaurants, furniture and clothing, experienced major price hikes, reflecting unethical behaviour by most businesses of indexing prices to the parallel market exchange rates.

Absolute Contributions to Inflation



95. In the outlook, inflation is anticipated to gradually subside as the impact of fiscal consolidation and the tight monetary policy measures restrain demand. Similarly, the gap between the interbank and the parallel exchange rates is anticipated to narrow down.

Official Exchange rate vs Parallel Exchange Rate

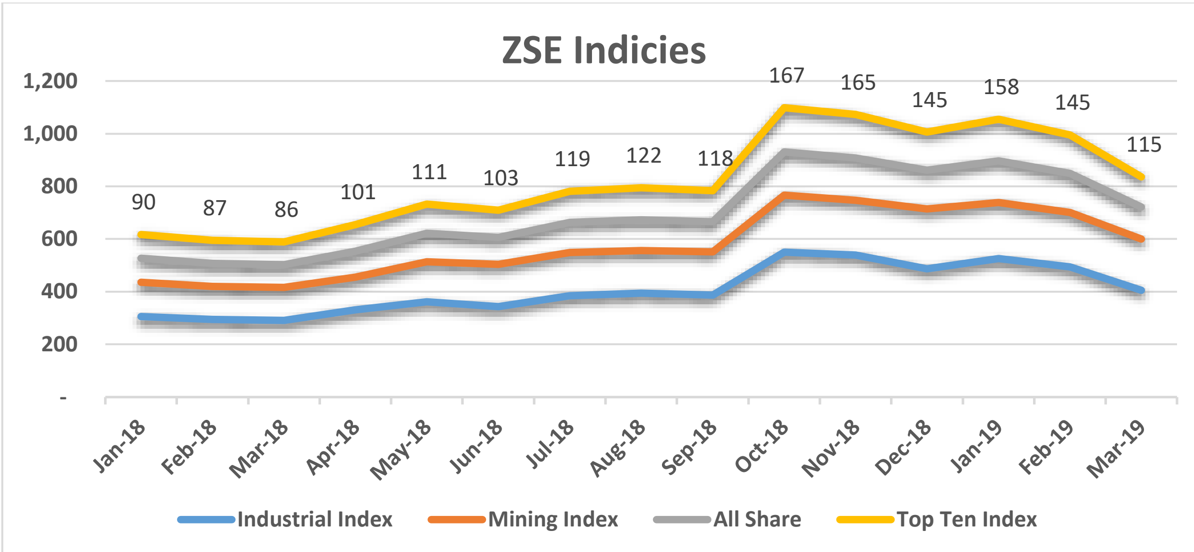


ZIMBABWE STOCK EXCHANGE

96. Mixed trading characterised the equities market in the first quarter of 2019. While the market started the year with positive gains in January, some losses were suffered during the months of February and March 2019.

97. The industrial index gained 38.77 points (8.0%) in the month of January 2019 before incurring losses in February and March 2019. Consequently, the industrials lost 81.77 points (16.7%) in the first quarter and closed March 2019 weaker at 405.57 points.

98. The mining index started the year at a low note of 227.71 by end of January, the index lost 15.58 points (-6.4%), before further losing more ground in February and March 2019. Resultantly, the resources index had cumulative losses of 33.73 points (-14.8%) during the first quarter and closed the month on March 2019 softer at 193.98 points.



Source: ZSE

99. The Top Ten Index declined by 30.41 points (21.0%) during the period under review, closing first quarter of 2019 at 114.61 points. The ZSE Top Ten index measures the performance of the listed top ten heavyweight counters and represents 65%-80% of the full market value.

100. The All share index, which tracks the changing average value of share prices of all companies on the market, lost 24.58 points (-16.8%).

101. Overall, the market capitalisation of the ZSE decreased by -17.2% from $19.3 billion at the beginning of the year to $16.8 billion at the end of the first quarter of 2019.

FISCAL PERFORMANCE

102. Fiscal consolidation and stabilisation measures in the TSP and the 2019 National Budget are paying dividends with revenue collections for the first quarter of 2019 performing above target by $146 million, while expenditures were contained below the target by $218.9 million.

103. As a result, a budget surplus of $443.1 million was realised during the quarter, creating additional space for financing capital and social development programmes and unforeseen exigencies related to drought and the impact of cyclone Idai.

Revenue

104. Cumulative tax and non-tax revenue collections for the first quarter of the year outperformed targets by 8.2% to record RTGS$1.9 billion, against a target of RTGS$1.8 billion, resulting in a positive performance of RTGS$146.0 million or 8.2%.

Revenue ($ Million)

	Actual	Target	Variance (%)
Total Revenue	**1926.6**	**1780.6**	**8.2**
Tax Revenue	1877.4	1747.2	7.5
Non tax Revenue	49.2	33.4	47.3

Source: Ministry of Finance and Economic Development

105. This performance represents 64.1% increase from the collections of RTGS$1.2 billion recorded during the same period in 2018 and a 13.9% increase compared with the RTGS$1.7 billion collected in the fourth quarter of 2018.

106. Among other measures, improved tax revenues during the first quarter of 2019 was attributable to strengthening of ZIMRA collection systems, plugging of tax loopholes as well as the review of excise duty from RTGS$0.45 to RTGS$2.31 per litre of petrol and from RTGS$0.40 to RTGS$2.05 per litre of diesel, which generated additional revenue of RTGS$146 million during the month of February.

107. The performance also benefitted from IMTT which generated monthly average revenue of RTGS$95 million against a target of RTGS$50 million.

108. Compared to the previous year, the first quarter performance represent a 64.1% increase from the 2018 collections of RTGS$1.2 billion.

Revenue Performance: January to March 2019

	Actual (Millions)	**Target (Millions)**	**Variance (Millions)**	**% Variance**
PAYE	230.20	234.37	(4.17)	-1.8%
Corporate Tax	241.23	221.38	19.85	9.0%
Other Direct Taxes	63.26	66.49	(3.23)	-4.9%
Customs Duty	90.97	116.97	(26.00)	-22.2%
Excise Duty	565.66	396.59	169.07	42.6%
Value Added Tax	357.23	466.13	(108.89)	-23.4%
Other Indirect Tax	328.89	245.26	83.63	34.1%
Non- Tax revenue	49.17	33.38	15.78	47.3%
Total Revenue	**1,926.60**	**1,780.56**	**146.04**	**8.2%**

109. Proportionally, tax revenue continues to account for the greater percentage of total revenues at 97.4% of total revenues, while non-tax revenue at RTGS$49.2 million, contributed 2.6%.

110. The positive performance in revenues continued into April 2019, with revenues of RTGS$846.8 million being realised against a target of RTGS$731.9 million. In the outlook, revenues are projected at RTGS 9.3 billion by end of the year.

Expenditure

111. Between January and March, expenditures were managed and reined to RTGS$1.5 billion, against planned spending of RTGS$1.7 billion, to give savings of RTGS$218.9 million, from reduced outlays towards operations and maintenance as well as delayed expenditures on capital programmes.

112. Major expenditures were on employment costs at RTGS$1.015 billion, Operations & Maintenance (RTGS$185.6 million), interest RTGS$93.3 million and capital projects RTGS$174.8 million.

Expenditure (RTGS$ Million)

	Actual	Target	Variance (%)
Total Expenditure & Net Lending	1 483.5	1 702.4	12.9
Employment Costs	1 015.0	986.2	-2.9
Operations & Maintenance	185.6	346.2	46.4
Interest	93.3	64.9	-43.7
Capital & Net Lending	174.8	305.0	43.2

Source: Ministry of Finance & Economic Development

Employment Costs

113. Employment costs at 68.4% of the total expenditures continue to dominate the expenditures. However, the increase in employment costs to total expenditure in 2019 is largely due to the cushioning allowance and pension reviews, filling of critical

posts in the education and health sectors as well as the effect of the introduction of exchange rate on the salaries for staff at foreign missions from February 2019.

Capital & Net Lending

114. Capital Expenditure and Net Lending, constituted 11.7% of total expenditures during the first quarter of 2019. The Budget resources were complemented by off budget financing, towards infrastructure projects covering mainly energy, transport, water and sanitation, housing and social sectors.

115. From the 2% IMTT ring fenced tax, specific projects that have benefitted include dualisation of Norton road along the Harare-Bulawayo Highway and development of a road in Bindura, among others.

Devolution

116. The 2019 National Budget allocated some US$310 million for the devolution programme under which resources are to be distributed to Provincial and Local tiers, in line with the Constitutional provision under Chapter 14 on devolution.

117. The devolution objective is to achieve growth and development that is equitable, shared and sustainable to the benefit of citizens at all levels.

118. Consequently, from the 2% ring fenced IMTT resources, Treasury has so far disbursed RTGS$42 million to Ministry of Local Government, Public Works and National Housing for the devolution programmes under various provinces and districts.

Mitigating Cyclone Idai Disaster

119. In March 2019, the country experienced the worst weather induced disaster in the form of Cyclone Idai, which caused loss of lives, infrastructure, food reserves and other assets, particularly, in Manicaland and Masvingo provinces.

120. Government initially earmarked RTGS$50 million towards mitigating the impact of Cyclone Idai and these resources targeted welfare of survivors, infrastructure rehabilitation in the areas of roads, bridges, water and sanitation, schools and health facilities, among others. The above allocation has since been increased to RTGS$100 million to cover the emergency requirements.

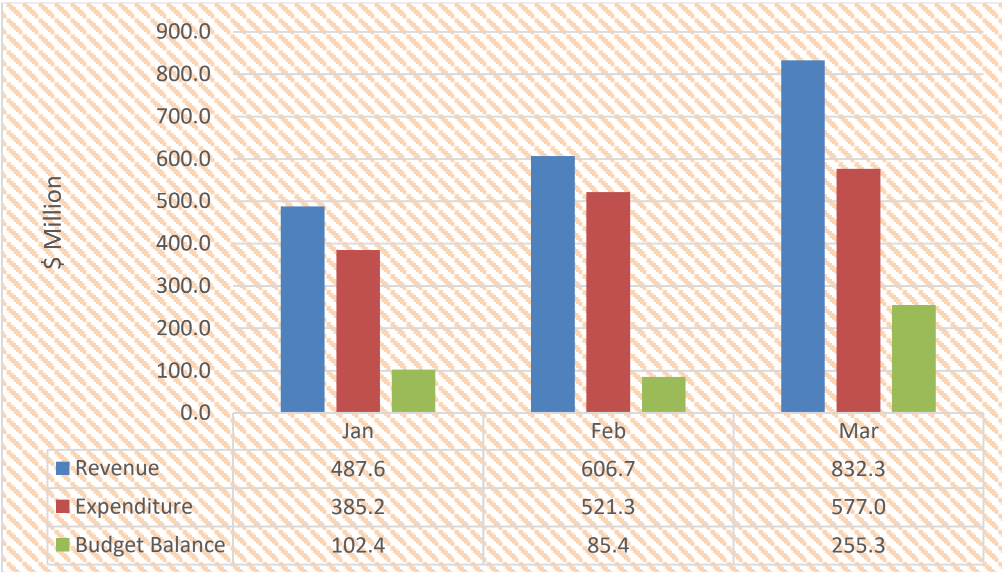
121. Government is also grateful for complementary support received from various development partners, local institutions and the public and the international community at large.

122. Furthermore, given the severity of the disaster, the President has since launched a costed International Appeal amounting to US$612.6 million in order to complement Government efforts towards restoration of livelihoods.

Budget Balance

123. The budget balance for the period January to March was a surplus of RTGS$443.1 million, against a target of RTGS$78.2 million, indicating a major shift in the management of central government finances from deficits to surpluses.

Budget Deficit: Jan – Mar 2019



Source: Ministry of Finance & Economic Development-Budgets

124. As a result, since January 2019, no Treasury Bills nor the overdraft facility were utilised to finance the budget. The Treasury Bill issuances amounting to RTGS$180 million were for purposes of restructuring previous years 'maturing debt.

125. Treasury Bill issuances related to ZAMCO operations have also been frozen, as announced in my 2019 Budget Statement.

126. With respect to implementation to the Treasury Bill Auction System, I envisage that this will now commence by the fourth quarter, due to the recent measures announced in the Monetary Policy Statement. This will allow the markets to settle.

Domestic Debt

127. At the end of first three months of 2019, domestic debt stood at RTGS$9.2 billion, down from RTGS$9.6 billion as at 31 December 2018. This represents a RTGS$326 million decrease in domestic debt.

128. The decrease in the stock of debt was on account of debt repayments with minimal TB issuances of RTGS$28 million for cash flow management purposes.

External Debt

129. External debt stock stood at US$8.2 billion at the end of March 2019

130. The bulk of the external debt is in arrears at 71% of the total external debt, a reflection on the country's challenges to create enough fiscal space that will allow the Government to repay its external obligations as well the foreign currency shortages bedevilling the economy.

131. External debt owed to bilateral creditors at US$5.6 billion constitute the largest share of external debt. Multilateral creditors, which are the IMF, World Bank and African Development Bank were owed US$2.6 billion as at 31 March 2019.

132. Government continue to engage various creditors for arrears clearance, an initiative which will also open up access to new developmental financing. However, it is also important to note that the country's capacity to clear old arrears and meet obligations arising from new financing hinges on the strength of the economy which in turn requires implementation of deep reforms under the TSP.

EXTERNAL SECTOR

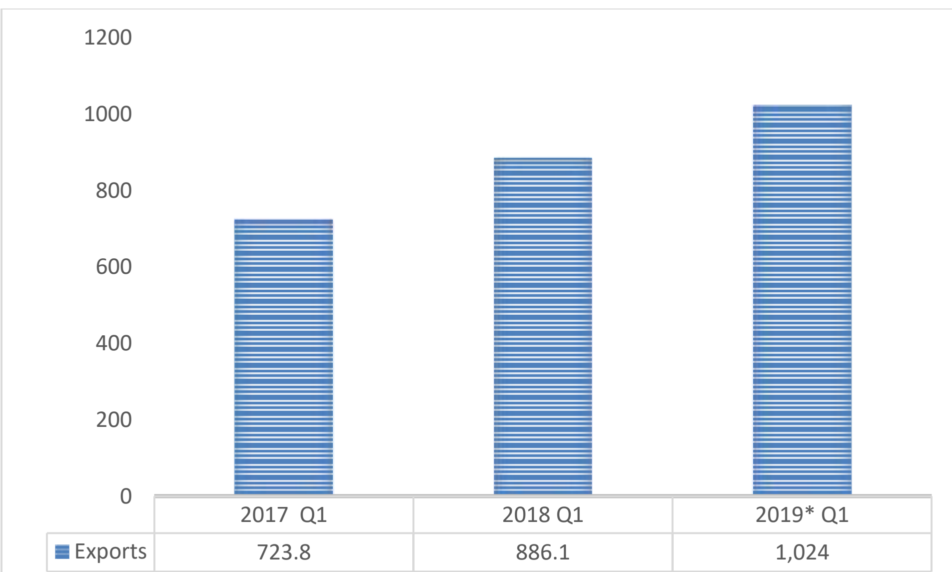
133. The TSP seeks to attain a sustainable balance of payments position underpinned by increasing exports particularly through focussing on value added exports. The strategy also seeks to take advantage of opportunities arising from regional and international trade.

134. Concurrently, the TSP targeted higher import substitution for goods and services which can be produced domestically taking advantage of the country`s resources. In addition, Government envisaged curtailment of non- essential imports in view of foreign currency limitations.

Exports

135. During the first quarter of 2019, the country's merchandise exports grew by 15% from RTGS$886.1 million realised in first quarter of 2018, to reach RTGS$1,02 billion.

Merchandise Exports (US$)

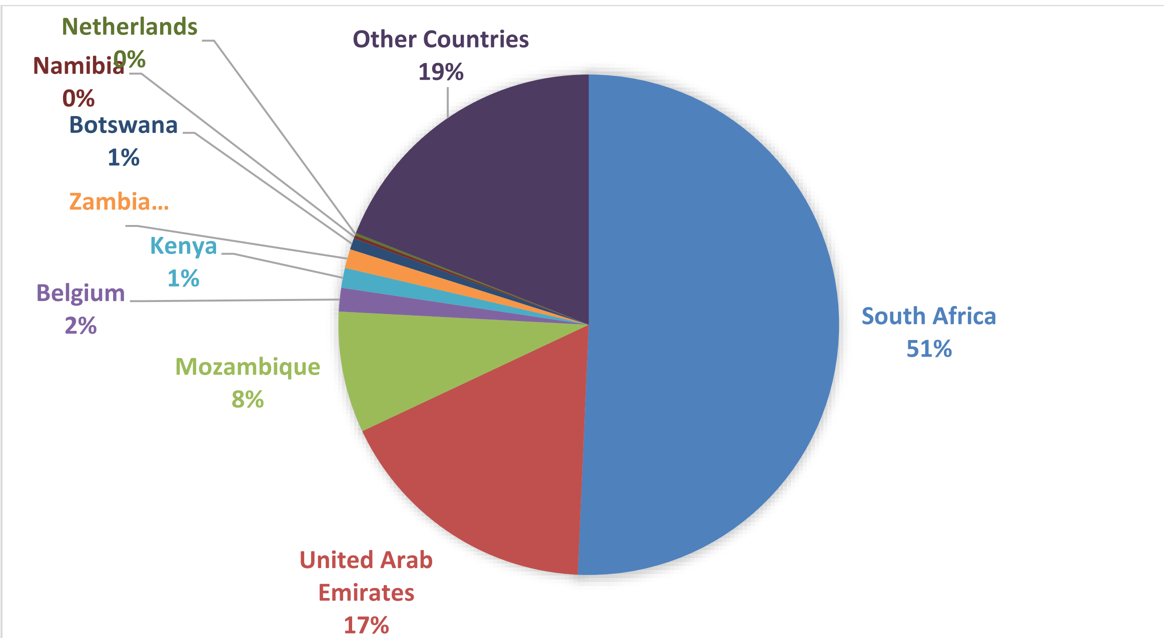


*Source: ZIMSTAT & MOFED calculations; *Estimate*

136. Exports for the period were mainly dominated by gold (23%), flue-cured tobacco (23%), nickel mattes (17%) and nickel ores & concentrates (11%), ferrochrome, industrial diamonds, among others.

137. South Africa, United Arab Emirates, and Mozambique remained the country`s export destinations, absorbing 51%, 17% and 8%, respectively, whilst other countries absorbed 19% of our exports as shown in the chart below:

Exports by Country Destinations



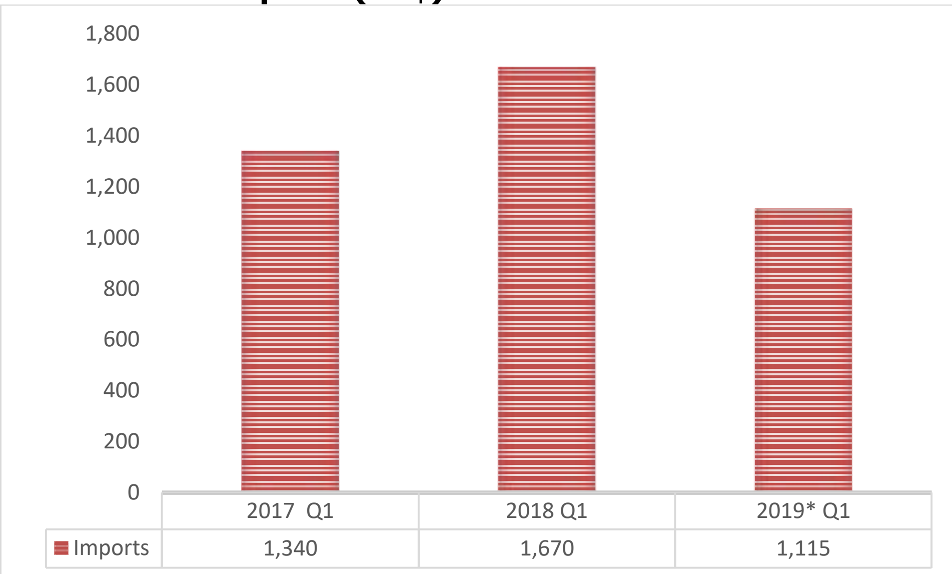
Source: ZIMSTAT & MOFED Calculations

Imports

138. Total merchandise imports stood at US$1.1 billion during the first quarter[1] of 2019, a 33% decrease from US$1.7 billion accumulated during the fourth quarter of 2018. This is also against US$1.8 billion recorded in same period in 2018. The reduction of the import bill reflects the impact of imports demand management measures under implementation, including fuel prices adjustment.

[1] Applied a 10% growth in imports for March 2019 since ZIMSTAT has not yet published figures for the month.

Merchandise Imports (US$)



*Source: ZIMSTAT & MOFED calculations; ***Estimate*

139. Diesel, petrol, tractors, wheat, vehicles for transportation and crude soya bean oil were the country's major imports during the months of January and February 2019.

Imports by Product (Jan-Feb 19)

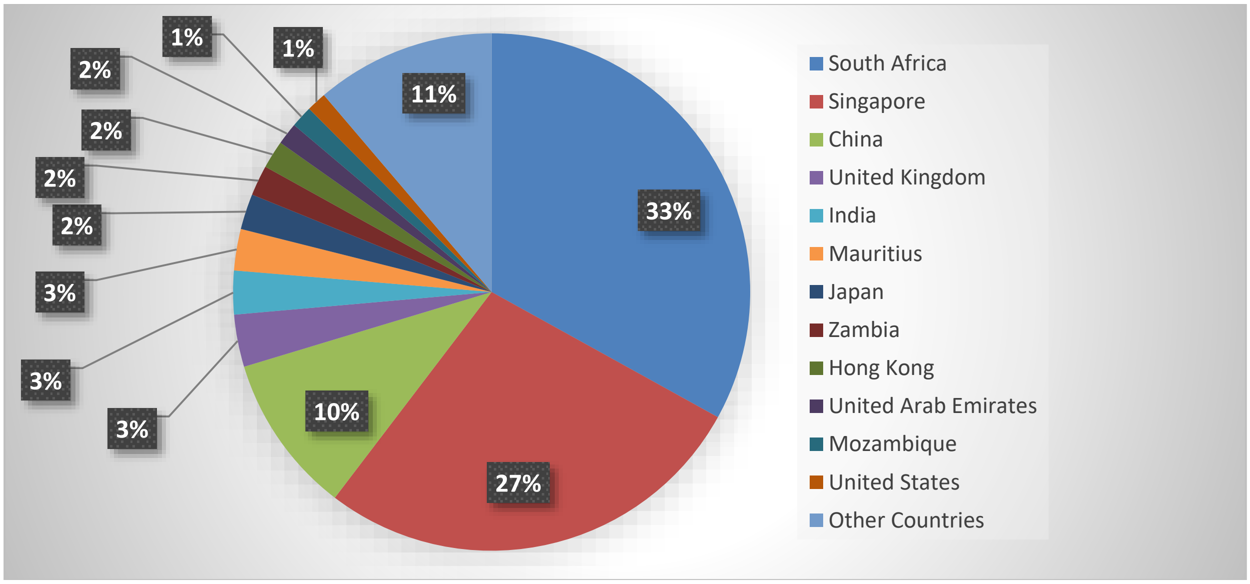
Product	Value(US$)	Share (%)
Diesel	119,931,064	17.0
Unleaded petrol	66,628,665	9.4
Road tractors for semi-trailers	11,199,467	1.6
Other durum wheat	10,766,108	1.5
Motor vehicles for the transport of goods of payload >800KG not exceeding 1400KG (1.4t)	10,733,497	1.5
Crude soya bean oil, whether or not degummed	10,476,041	1.5
Aviation Spirit	9,642,483	1.4
Self-propelled front-end shovel loaders	6,811,280	1.0
Other insecticides nes	6,791,462	1.0
Medicaments used in the management of chronic illnesses app by Sec of Health	6,258,382	0.9

Product	Value(US$)	Share (%)
Electrical energy	6,099,198	0.9
Goods vehicles, with diesel/semi-diesel engines, gvw 5-20t, nes	5,633,503	0.8
Herbicides ,anti-sprouting products and plant growth regulators in containers <20Lor 5k	5,606,243	0.8
Medicament used for chronic illness; approved by Secretary for Health	5,187,571	0.7
Broken rice in Bulk >= 25kg	4,826,079	0.7
Polyethylene having a specific gravity <0.94, in primary forms	4,739,214	0.7
Ammonium dihydrogenorthophosphate (monoammonium phosphate)	4,660,177	0.7
Lubricating oils & blending stocks for lubricating oil in packings < 210 litres	4,601,448	0.7
Parts for boring or sinking machinery of subheading 8430.41 or 8430.49	4,327,365	0.6
Other Products	402,335,234	56.9
Grand Total	**707,254,483**	

ZIMSTAT & MOFED Calculations

140. The major import sources during the period under review were South Africa, Singapore, and China, contributing 33%, 27%, 10%, respectively.

Imports by Country (Jan-Feb 19)

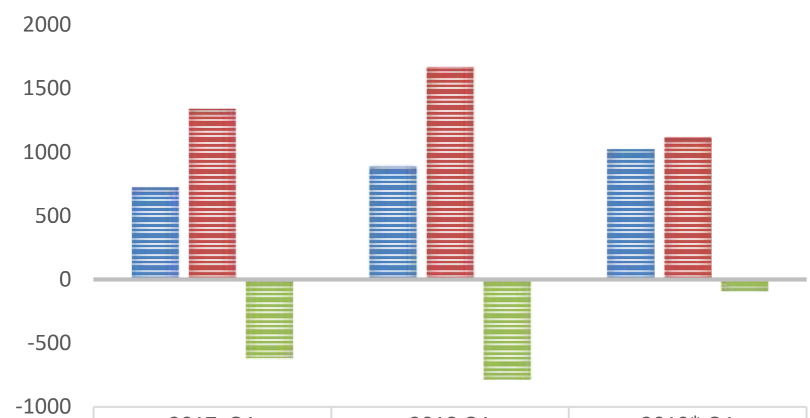


Source: ZIMSTAT & MOFED Calculations

Trade Balance

141. Resultantly, the trade deficit for the first quarter of 2019 stood at US$90.6 million, constituting a 76% improvement from the 2018 fourth quarter deficit of US$384.5 million. In comparison to the first quarter of 2018, the current trade deficit improved by 88%.

Trade Balance



	2017 Q1	2018 Q1	2019* Q1
Exports	723.8	886.1	1,024
Imports	1,340	1,670	1,115
Trade Balance	-616	-784	(91.00)

Source: ZIMSTAT & MOFED Calculations

142. However, there is much more scope for managing the import bill targeting other non-essential imports imbedded in the US$402.3 million as indicated under the table above.

STRUCTURAL ISSUES

Reform of Public Enterprises

143. Implementation of the Public Enterprises reforms is being guided by the Cabinet Decision of 10 April 2018

144. To this end, the following progress is worth noting.

Entity	Reform Progress
GMB	The de-merger of the GMB into GMB Strategic Grain Reserve and Silo Foods Industries has been completed. Silo now operational.
NRZ and ZISCO	Negotiations with the strategic partners for NRZ and ZISCO are at an advanced stage.

Entity	Reform Progress
CSC	A Concessioning Agreement was signed between CSC and Bousted Beef Limited of United Kingdom.
CAAZ	The Civil Aviation Amendment Act has now been enacted.
IDC Subsidiaries	Resumption of the IDCZ Developmental financing Role, and immediate release of the $30m seed capital allocated in the 2019 budget. Privatisation of the identified subsidiaries underway and two IDC subsidiaries have been liquidated.
ZESA	Cabinet has approved the Re-bundling of all the ZESA subsidiaries into a vertically integrated single Board. Technical Committee is working on the implementation.
ZIDA	The One Stop Investment Services Center is operational as an interim arrangement. The ZIDA Bill is being considered by Parliament.
Tel-One & Net-One	To be privatised as a single package. The Technical Committees for Tel One and Net One have therefore been combined to ensure the privatisation of the two entities is undertaken as a single package as approved.
Allied Timbers	Partial privatisation roadmap approved by Cabinet on 19 February 2019.
ZMDC Subsidiaries	Partial privatisation is underway, with the initial tender for 6 subsidiaries that had been undertaken in 2018 cancelled
Agribank	Process to appoint advisors for the following SEPs is under way
Petrotrade	Process to appoint advisors for the following SEPs is under way
ZIMPOST	Process to appoint advisors for the following SEPs is under way
National Indigenization and Economic Empowerment Board	Has been integrated into a department in the Ministry of Industry, Commerce and Enterprise Development.
Board of Censors	Has been departmentalized in the Ministry of Home Affairs and Cultural Heritage.

Entity	Reform Progress
National Library and Documentation services	Has been departmentalized under the Ministry of Primary and Secondary Education.
National liquor licensing Authority	Has been departmentalized under the Ministry of Local Government, Public Works and National Housing.

Ease of Doing Business Reforms

145. Government, under the TSP continues to pursue ease of doing business reforms as part of broad measures on enhancing the country`s investment environment. The reforms target administrative and other legislative bottlenecks under various statutes.

146. Milestones have been recorded in the following areas:

Reform	Objective	Progress to Date
Ease of Doing Business	Removal of regulatory, transactional and administrative hurdles in doing business	A lot of administrative procedures, timelines and costs have been reviewed and streamlined to facilitate the Ease of Doing Business between 12 February and 29 April 2019. These reforms are as follows: • Improving the overall quality and efficiency of the property registration system in Zimbabwe through improved quality of registering property, reducing number of procedures from 5 to 4 and improved land dispute resolution; • The establishment of a credit registry to facilitate the obtaining of credit has been completed. • Improving the enforcement of contracts through increasing the number of small claims courts from 2 to 10 and the establishment of commercial courts from 0

Reform	Objective	Progress to Date
		to 4.The operationalisation of the magistrates' courts to be done after the validation and gazetting of the requisite Court rules. • Improving Trading across Borders through reviewing of checkpoints for both imports and exports clearance processes at Beitbridge Border Post resulting in a 41% reduction in compliance checkpoints.

147. Over and above administrative issues, there is also progress on the legislative agenda is as follows:

Reform	Objective	Progress to Date	Targeted Date of Completion
Insolvency Bill Estate Administrators Act	To ensure accountability and efficiency insolvency proceedings that permit unsalvageable companies to be quickly liquidated and viable firms to be revived, thus preserving jobs	• Passed last year by the 8th Parliament	• December 2018
Shop Licensing Amendment Bill	To streamline and simplify licensing procedures and timelines	• Passed in 2018	• December 2018
Public Finance Management (Amendment) Act	To enhance transparency and accountability in the management of public resources	• Passed in 2018	• December 2018
ZIDA Bill	Amalgamate 3 investment agencies, ie ZIA, Joint Ventures Unit and Special Economic Zones Authority) to make sure that all investments are processed under one roof.	• ZIDA Bill tabled and gazetted before Parliament on 5 April	• June 2019
Census and Statistics Amendment Act	To allow dissemination of micro data to data users	• Promulgated into law	• December 2018
General Laws Amendment Act	Amendment of outstanding laws	• Gender equality provisions in state	• December 2019

Reform	Objective	Progress to Date	Targeted Date of Completion
		institutions yet to go before Parliament	
Companies and other Business Entities Bill	Overhaul of Act to be in line with modern business practices and consolidation of different types of corporations so as to reduce cost and time for starting a business in Zimbabwe.	• Bill is still before Parliament and currently on second reading	• December 2019
Regional Town and Country Planning Amendment Bill	Improve the time taken and procedures for issuing construction permits.	• Bill not yet before Parliament and was sent to the Ministry of Local Government for further action.	• December 2019
NSSA Act	Will streamline the number of tax payments made by employers by enabling ZIMRA to collect NSSA contributions on behalf of NSSA combined with ZIMDEF Payments thus reducing employee related payments from 36 to 12.	• The Bill hasn't been drafted yet because the relevant Ministry was not aggregable to certain amendments, i.e issue of tax collections	• December 2019
Manpower Act	Will streamline the number of tax payments made by employers by enabling ZIMRA to collect ZIMDEF contributions on behalf of ZIMDEF combined with NSSA Payments thus reducing employee related payments from 36 to 12.	• Draft Principles crafted and presented to the relevant Ministry. • Continuous professional development training to enhance staff performance being drafted.	• December 2019
Repealing of POSA	To maintain peace and order in the country	• The proposed Maintenance of Peace and Order Bill, which will repeal the Public Order and Security Act (POSA) is currently before Parliament	• Second quarter of 2019
Repealing of AIPPA	To enhance freedom of expression.	• Cabinet approved principles of 3 Bills, which will repeal the Access to Information and Protection of Privacy Act (AIPPA)	• Fourth quarter of 2019

Reform	Objective	Progress to Date	Targeted Date of Completion
		(Chapter 10:27). These are the Protection of Personal Information Bill and the Freedom of Information Bill approved on 19 February and the Zimbabwe Media Commission Bill approved on 13 February 2019.	

CONCLUSION

148. Generally, the economy has experienced significant headwinds and the cyclone that affected the country in March 2019 poses yet another obstacle to strong, sustainable, balanced, and job rich growth. Some of the challenges also emanated from inflationary pressures and these challenges are insurmountable and being targeted during the three quarters of the year.

149. I will be updating this House on further developments and other proposals during my 2019 Mid-Year Fiscal Policy Review presentation sometime in July 2019.

MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT

May 2019