GLOBAL ECONOMY

IMF lowers 2016 global growth forecast…

… IMF reduced its 2016 global economic growth forecast by 0.2 percentage points to 3.2%...

During the period under review, the International Monetary Fund "IMF" reduced its 2016 global economic growth forecast from 3.4% to 3.2%. The global watchdog cited worsening spill-over from China's economic slowdown, the impact of low oil prices on emerging markets, rising geo-political conflicts and persistent economic weaknesses in Japan, Europe and the United States as the reasons for the downgrade. **Table 1** below outlines the revised growth projections.

Table 1: World Economic Outlook Projections

	2015	2016	2017	Difference from Jan 2016 Update 2016	Difference from Jan 2016 Update 2017
World Output	**3.1**	**3.2**	**3.5**	**-0.2**	**-0.1**
Advanced Economies	**1.9**	**1.9**	**2.0**	**-0.2**	**-0.1**
USA	2.4	2.4	2.5	-0.2	-0.1
Euro Area	1.6	1.5	1.6	-0.2	-0.1
Japan	0.5	0.5	-0.1	-0.5	-0.4
U.K	2.2	1.9	2.2	-0.3	0.0
Emerging Mkt & Developing Economies	**4.0**	**4.1**	**4.6**	**-0.2**	**-0.1**
China	6.9	6.5	6.2	0.2	0.2
India	7.3	7.5	7.5	0.0	0.0
Brazil	-3.8	-3.8	0.0	-0.3	0.0
Sub-Saharan Africa	**3.4**	**3.0**	**4.0**	**-1.0**	**-0.7**
Nigeria	2.7	2.3	3.5	-1.8	-0.7
South Africa	1.3	0.6	1.2	-0.1	-0.6
Zimbabwe	**1.5**	**2.7**	**3.5**	*	*

Source: IMF - WEO April 2016 (*- Not Provided)

As part of measures to boost global growth, the IMF recommended continuation of accommodative monetary programs and infrastructure investments, amongst others. However, most advanced economies have already been pursuing expansionary monetary policies, with the likes of Japan going the unprecedented route of introducing negative interest rates. As such, it remains to be seen to what extent will further monetary easing assist in addressing the weaknesses in the global economy.

Aggressive monetary easing in China…

…. PBoC lowered the RRR for the fifth time since February 2015…

The structural shift in China's economy, from manufacturing to services led growth, continued during the period under review. The monetary authorities also remained willing participants in the country's financial markets, actively altering monetary policy to counter the adverse effects of the structural shift. In fact, the Peoples' Bank of China "PBoC" injected liquidity worth US$130 billion into the economy to both calm the markets – after a devaluation of the Yuan - and spur demand. In addition, the PBoC also lowered the Reserve Requirement Ratio "RRR", for the fifth time since February 2015, by 50 basis points, to 17%. Going forward, the authorities are expected to maintain their accommodative policy stance as part of measures to manage the structural shift in economic activity. Additionally, China's shift towards services led growth will also adversely affect commodity driven emerging and developing economies, particularly through reduced export earnings due to depressed prices.

REGIONAL ECONOMIES

... South Africa successfully issued a 10-year bond worth US$1.25 billion…

South Africa: Sovereign bond oversubscribed...

The Government of South Africa successfully issued a 10-year bond worth US$1.25 billion, with a coupon rate of 4.9%, during the period under review. Despite the notable increase in political differences and a weakening currency, the bond was oversubscribed more than 2 times - mostly by European and United States investors. However, the oversubscription could be a reflection of the lack of alternative viable investment assets, given the growing tendency towards negative interest rate policies by most advanced economies and the likelihood of slower interest rate tightening by the US Fed. Going forward, although the continuation of accommodative monetary policies in advanced economies will perpetuate the attractiveness of the sovereign debt market to emerging economies, depressed commodity prices and weakening fiscal positions will be the main downside risks.

DOMESTIC ECONOMY

...IMF mission undertook a review of the third and final review of Zimbabwe's 15-month Staff Monitored Program "SMP...

IMF Mission undertakes SMP final review…

During the period under review, the International Monetary Fund "IMF" undertook the third and final review of the 15 month Staff Monitored Program. The IMF concluded that Zimbabwean authorities met all the program's quantitative targets and structural benchmarks. As part of the SMP, and ongoing reengagements with the international community, the Zimbabwean authorities are expected to pursue the following arrears clearance strategy - **Table 2**.

Table 2: Zimbabwe's Arrears' clearance strategy

1.	Utilisation of the country's special drawing rights "SDR" from the IMF to repay US$110 million to the IMF,
2.	Utilisation of a bridge loan of US$819 million arranged by Afreximbank to repay AFDB (US$601 million) and the World Bank's International Development Association (US$218 million), and,
3.	Utilisation of a long term loan from a bilateral lender to repay the International Bank of Reconstruction and Development an amount of US$891 million.

Source: 2016 Monetary Policy

Meanwhile, in the short term period, much of the focus will be on the forthcoming meeting of the IMF, to be held in early May 2016, during which Zimbabwe is expected to be form part of the discussions. Going forward, the successful implementation of the arrears clearance strategy is expected to strengthen ongoing re-engagements efforts between the Government and the international community.

...investors seek to take positions…

Investors seek to take positions …

As the country made another significant step towards reengagement with the international community, after successfully concluding a 15 month IMF Staff Monitored Program, a number of business delegations visited the country during the period under review. These included Chinese and South African investors, most of whom were looking for investment opportunities, markets for their products and sources of raw materials. More business delegations are expected, as investors seek to take positions ahead of any turnaround in the economy.

Further clarity on implementation of indigenisation laws…

The Government further clarified the implementation matrix for the indigenization and economic empowerment policy. In particular, the authorities explained the separation of the rule between existing and new investments. Thus, for existing investments in the natural resources sector, non-compliant firms may comply through ensuring that local content retains not less than 75% of gross value, whilst the 51:49 rule for new investments will be maintained. In terms of the non-resources sector, including financial services, the Government introduced sector based empowerment credits or quotas and these would be granted as firms gradually work towards compliance. The revised and flexible stance by the Government is commendable and it is expected that the Government will reinforce this stance with the necessary legislative pronouncements.

Food security threat…

…An estimated US$1.6 billion required to finance food imports …

During the period under review, the Government declared the 2015/16 agriculture season a "state of disaster" following below normal rainfall and prolonged dry spells during the 2015/16 agricultural season. According to the Government, around US$1.6 billion would be required to finance food imports during the 2016 marketing season. Meanwhile, with the whole Southern Africa region facing reduced agricultural output – a direct result of the El Nino effect – the Government will be forced to import grains from relatively distant markets such as South America, as traditional regional trade partners will be looking at building and conserving their own reserves. In fact, South Africa is targeting to import 5 million tonnes of grains, whilst Zambia – which anticipates a deficit of 200,000 tons for 2016 – has already stopped grains exports. In the short term, Zimbabwe's huge funding requirement is expected to put further strain on the fiscal position, as – in the absence of significant donor support - the Government will be forced to incur unplanned debts to finance the grains and cereals imports.

Tobacco marketing season - off to a good start …

Despite the delayed opening of the 2015/16 marketing season, compared to the previous season, the 2015/16 tobacco marketing season began on a relatively good start, with average prices significantly higher than the previous season's levels. The improvement in prices was driven by improved crop quality, especially from the well supported contract farmers who now dominate tobacco farming in the country. Thus, as a result of the delayed start, and the notable improvement in prices, both the volume and value traded were significantly higher by 72.7% and 90.5% at 20.6 million kg and US$53.7 million, respectively by close of business on 21 April 2016 - **Table 3**.

…. volume and value increased significantly…

Table 3: Tobacco Marketing Statistics as at 21 April 2016

Seasonal	Total Auction	Total Contract	Total 2016	Total 2015	Change (%)
Mass sold (mln kg)	4.82	15.75	20.57	11.92	72.7%
Value (US$mln)	9.89	43.79	53.68	28.17	90.5%
Average Price (US$/kg)	2.05	2.78	2.61	2.36	10.6%
Rejected %	13.14%	4.92%	7.26%	13.29%	6.0
Highest Price (US$/kg)	4.99	5.60	5.60	6.25	-10.4%
Lowest Price (US$/kg)	0.10	0.10	0.10	0.10	-
Average bale weight (kg)	71.0	85.0	81.0	80.0	1.3%

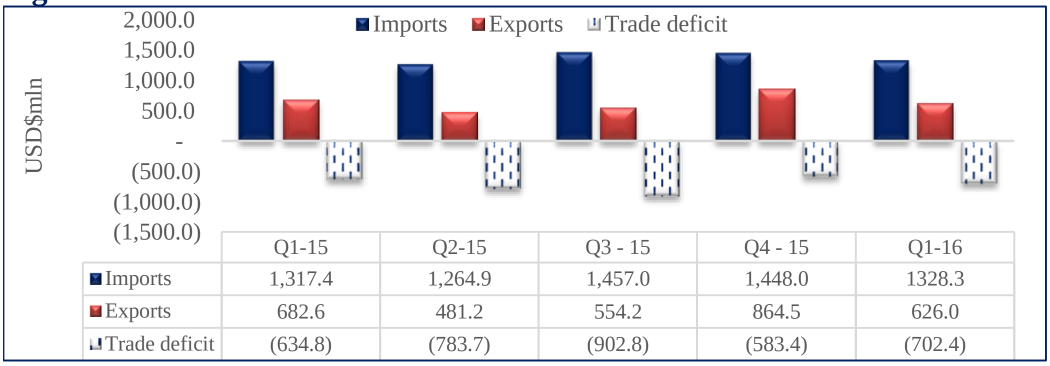
Source: TIMB

... Trade deficit widened by 20.4% to US$702.4 million in Q1 ...

Currency strength strains trade position…

The trade deficit widened by 20.4% q/q to US$702.4 million in Q1 2016, compared to US$583.4 million Q4 2015. Although imports declined by 8.3% from US$1.4b to US$1.3b – reflecting the currency strength - the trade deficit widened on the back of a relatively larger 26.6% decline in exports from US$0.8b to US$0.6b, over the same period. **Fig.1** below depicts the quarterly trends in the trade account from Q1 2015.

Fig.1: Trends in Trade Data



	Q1-15	Q2-15	Q3 - 15	Q4 - 15	Q1-16
Imports	1,317.4	1,264.9	1,457.0	1,448.0	1328.3
Exports	682.6	481.2	554.2	864.5	626.0
Trade deficit	(634.8)	(783.7)	(902.8)	(583.4)	(702.4)

Source: ZIMSTAT

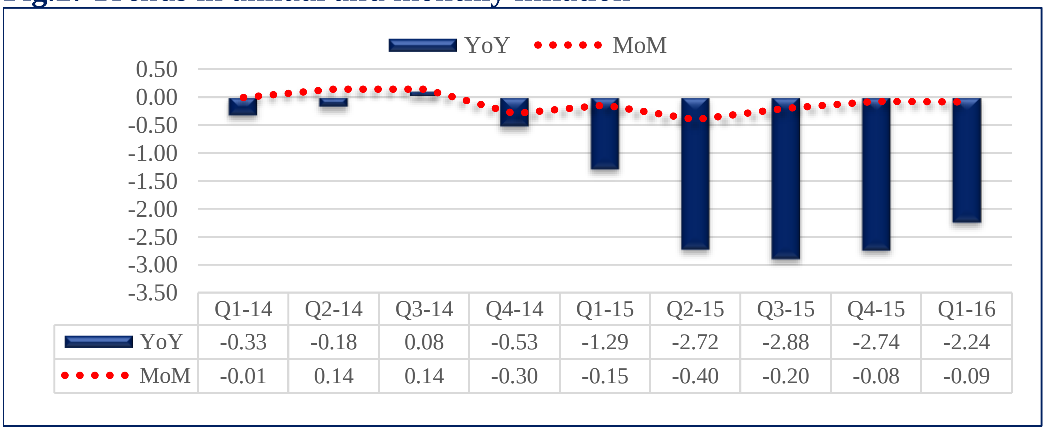
In the short term, the ongoing tobacco marketing season is expected to boost export proceeds. However, the Government would need to speed up efforts to rebuild the country's productive capacity inorder to sustainably address the country's balance of payments position.

Drought conditions ease deflationary pressures…

Average annual inflation rose by 0.50 percentage points to -2.24% in Q1 2016, from -2.74% in Q4 2015, driven by drought induced increases in prices for cereals, fruits and vegetables. In addition, electricity, outpatient services and education prices also exerted inflationary pressures during the period under review. However, the month-on-month "*m/m*" inflation shed 0.1 percentage points to -0.09%, over the same period. **Fig.2** below illustrates the quarterly trends in inflation since 2014.

...rising food prices to soften deflationary pressures...

Fig.2: Trends in annual and monthly inflation



	Q1-14	Q2-14	Q3-14	Q4-14	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16
YoY	-0.33	-0.18	0.08	-0.53	-1.29	-2.72	-2.88	-2.74	-2.24
MoM	-0.01	0.14	0.14	-0.30	-0.15	-0.40	-0.20	-0.08	-0.09

Source: ZIMSTAT

In the short to medium term, inflationary pressures are expected to emanate from the ongoing strengthening of oil prices, drought induced increases in food prices and the impending increase in electricity tariffs. However, deflation will persist.

FINANCIAL SECTOR DEVELOPMENTS
Rising competition spawns innovation…

The financial sector witnessed sustained improvements in products offerings and delivery channels, as institutions moved from "*renovation to innovation*" in order to remain competitive in the face of increasing players. **Table 4** below outlines the major product innovations introduced in Q1 2016.

... CBZ Bank introduced a MoneyGram facility…

Table 4: Product initiatives

Organisation	Product/Promotion	Product/Service Category	Sub-sector	Type of Initiative
CBZ Bank	CBZ Visa	Transaction Banking - Cards	Banking	Product Enhancement
NMB	MoneyGram facility	Transaction Services - Payments	Banking	Product Launch
POSB	Mobile Application	Transaction Services - Mobile	Banking	Product Launch
POSB	Western Union - Outbound remittances	Transaction Services - Remittances	Banking	Product Extension
Hello Group	Remittance Facility - Hello Paisa for Malawi	Transaction Services - Remittances	Non Bank/Retail	Product Launch
NMB	School Fees - Private Schools	Transaction Services - Loans	Banking	Product Awareness
Stanbic	StanbicVisa Cards	Transaction Banking - Cards	Bancassurance	Product Enhancement
Econet Wireless	EcoCash Diaspora - Chitoro	Transaction Services - Mobile	Banking/Mobile	Product Extension
CBZ Bank	Moneygram Facility	Transaction Services - Remittances	Banking	Product launch
Stanbic	Tobacco Farmers Debit Card	Transaction Services - Banking	Banking	Product Launch
CBZ Life	Mi-Life	Transaction Services - Insurance	Insurance	Product Launch
Econet Wireless	Econet Connected Home	Transaction Services - Security	Security	Product Launch
ZPI	Zimre Park Extension - Sale of Residential & Church stands	Sales of Stands	Property	Product Launch
IDBZ	Masvingo Clipsham Views residential stands	Sales of Stands	Property	Product Launch
FBC B/S	Springvale Ruwa - sales of serviced stands	Transaction services - Mortgage	Mortgages	Product Launch

Source: Various

In terms of channel innovation, **Table 5** below outlines the major initiatives that were undertaken during the first quarter of 2016.

…innovation expected to drive financial sector…

Table 5: Channel expansion/Rationalisation activity

Organisation	Type of Initiative	Description
NMB Bank	Chinhoyi Branch Opening	Stand No.469, Magamba Way, Chinhoyi
NMB Bank	Chinhoyi Branch Opening	Stand No.469, Magamba Way, Chinhoyi
Agribank	Relocation of Branch Office	From R.Mugabe Branch to Kopje Branch - effective 01 February 2016
ZB Bank	Harare Polytechnic Agency	Corner Herbert Chitepo/ Prince Edward Road,
ZB Bank	Closure of Juliasdale-Nyanga Branch	Effective 29 February 2016

Source: Various

As shown in tables 4 and 5, the major product and channel initiatives were driven by NMB Bank, as it sought to support its new business model. Going forward, the drive towards financial inclusion and the need for banks to remain relevant in the current environment, will continue to motivate product innovation within the financial sector. In fact, CBZ Holdings in April 2016 launched the country's first integrated financial services mobile app. As banking remains dynamic, partnerships between banks, mobile network operators and money transfer agencies are expected to remain elevated, as institutions seek to foster innovation and accessibility at optimal costs.

Table 6: ZSE Performance

Domestic	31-Dec-15	31-Mar-16	Q1 Change(%)
Industrial Index	114.85	97.61	-15.0%
Mining Index	23.72	19.53	-17.7%
Mkt cap - US$mln	3.07	2.65	-13.9%
Qtrly Turnover - US$mln	38.17	43.33	13.5%

Source: ZSE

... The industrial and mining indices declined by 15.0% and 17.7%, respectively…

FINANCIAL MARKETS REVIEW

1. Equities - Another quarterly loss…

During the period under review, the industrial and mining indices declined by 15.0% and 17.7% to close at 97.61 points and 19.53 points, respectively – **Table 6** across. A rise in negative investor sentiment, due to declining economic fundamentals and depressed earnings from the listed corporates, dragged the equities' market performance. Among the heavyweight stocks, BAT, Delta, Natfoods, Seed Co, Hippo, OK Zimbabwe and Innscor recorded notable losses ranging from 11.76% to 37.50% in Q1 2016.

The market breadth for the ZSE comprised of 13 movers, 33 shakers and 12 stocks that traded unchanged. **Table 7** below illustrates the Top 6 movers and shakers for Q1, dominated by small and medium companies.

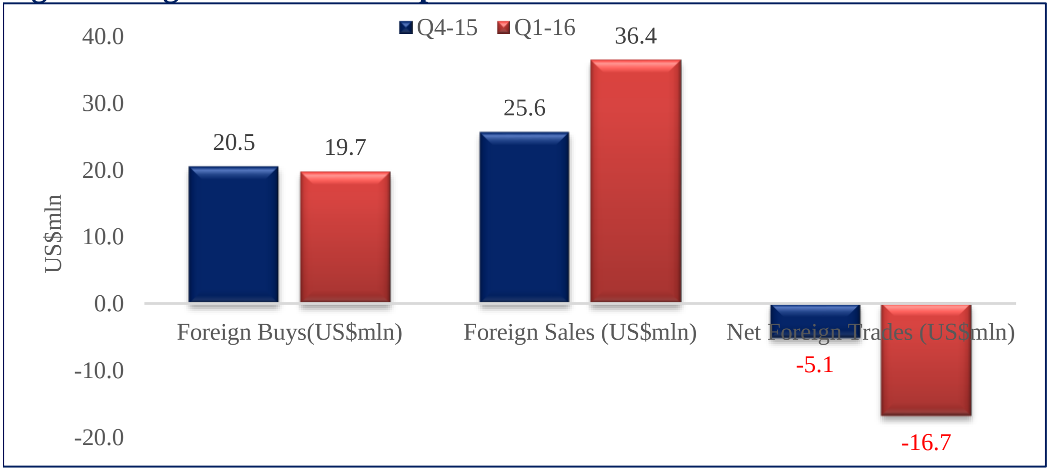
Table 7: ZSE Movers and Shakers

Movers				Shakers			
Counter	31-Dec-15	31-Mar-16	Change(%)	Counter	31-Dec-15	31-Mar-16	Change(%)
Star Africa	0.60	1.00	66.67%	CAFCA	40.00	18.00	-55.00%
ZHL	1.28	1.80	40.63%	Medtech	0.04	0.02	-50.00%
Art	1.00	1.20	20.00%	Innscor	30.00	18.75	-37.50%
ZBFH	2.50	3.00	20.00%	Bindura	1.60	1.00	-37.50%
Econet	21.00	24.50	16.67%	Barclays	4.25	2.80	-34.12%
Powerspeed	2.20	2.50	13.64%	PPC	100.00	69.75	-30.25%

Source: ZSE

Meanwhile, on a quarterly basis, turnover increased by 13.5% from US$38.2 million in Q4 2015 to US$43.3 million in Q1 2016, driven by local investors. The trio of Delta, Econet and Innscor were the most traded stocks commanding 32.6%, 30.4% and 8.7% of total turnover. Offshore investors were net sellers at US$16.7 million, compared to US$5.1 million, over the same period, as illustrated in **Fig.3** below.

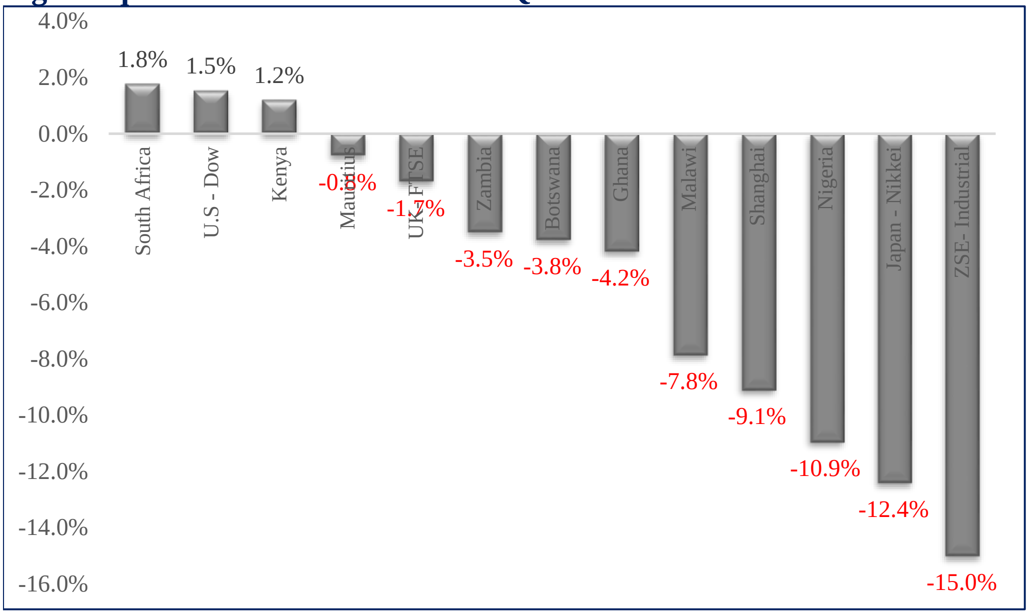
Fig.3: Foreign Investor Participation Trend



Source: ZSE

On the regional and international equities markets, with the exception of South Africa, U.S (Dow) and Kenya, all markets under our survey traded in the negative territory. The slowdown in China, which in early 2016 triggered a global markets sell off, adversely affected stock markets coupled by expectations of slow monetary tightening program by the US Federal Reserve "Fed". As illustrated in **Fig 4**, Zimbabwe was the worst performer, whilst Mauritius recorded the smallest decline of 0.7% in Q1.

Fig.4: Equities Market Performance Q1 2016



Source: Various

Going forward, activity on the Zimbabwe stock exchange is expected to continue to mirror the overall economic performance, but the market will remain a key beneficiary of the continued absence of viable alternative investment assets, with investors generally maintaining selective investment strategies. The Government's continuation of the engagement program with the international community may be a signal for long term investors to consider taking positions. On the global level, market gyrations are expected to remain elevated on the back of continuously mixed economic data across the key regions.

2. Commodities – Rebound on commodity prices…

Commodities largely traded in the positive territory in Q1 2016. Gold was the top performer, after advancing by 15.2% to US$1,232/oz, on renewed safe-haven demand. Platinum prices also rose significantly by 10.8% to US$975/oz on the back of an anticipated deficit in 2016. However, nickel prices fell by 4.4% to US$8,280/t on continued lower demand from China. **Table 8** across highlights the Q1 commodities performance. Dwindling output levels for most metals, as most commodity producers are curtailing production in response to demand, is somehow expected to support a stabilization and ultimately recovery of commodity prices.

Table 8: Quarterly commodities performance

Commodities	31-Dec-15	31-Mar-16	Q1 Change(%)
Metals			
Gold - US$/oz	1,069.60	1,232.20	15.2%
Platinum - US$/oz	880.00	975.00	10.8%
Copper - US$/t	4,702.00	4,855.00	3.3%
Nickel - US$/t	8,665.00	8,280.00	-4.4%
Oil - US$/b	38.21	38.68	1.2%
Agricultural			
Wheat - US$/t	172.70	173.98	0.7%
Soybeans - US$/t	343.27	347.59	1.3%
Sugar - US$/pound	15.22	15.14	-0.5%
Cotton - US$/pound	63.37	58.55	-7.6%

Source: Various

Table 9: Quarterly' currencies performance

Currencies	31-Dec-15	31-Mar-16	Ytd Change (%)
USD/ZAR	15.5293	14.8208	-4.6%
USD/BWP	11.0738	10.8112	-2.4%
USD/ZMK	10.9357	11.192	2.3%
USD/NGN	196.899	196.268	-0.3%
USD/GBP	0.6755	0.6959	3.0%
USD/EUR	0.9168	0.885	-3.5%
USD/JPY	120.36	112.39	-6.6%
USD/CNY	6.4907	6.4479	-0.7%
Dollar Index - DXY	98.683	94.96	-3.8%

Source: Oanda

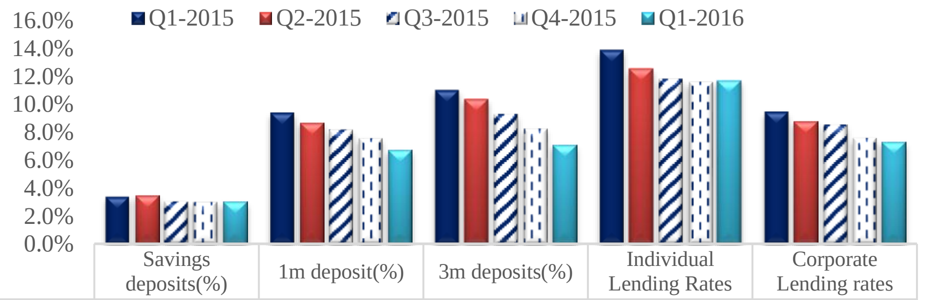
3. Currencies Markets: U.S. dollar weakens…

During the period under review, the U.S. dollar weakened on concerns of an expected slow monetary policy tightening program by the US Fed. The dollar index, thus, fell by 3.8% to 94.96 in Q1 2016, whilst the US dollar was down by 3.5% and 6.6% against the euro and the Japanese yen, respectively. In addition, the U.S. dollar was weaker compared to most African economies currencies, as the latter were spurred by the recovery in commodity prices. In fact, losses of 4.6%, 2.4% and 0.3% were recorded by the U.S dollar against the South African rand, Botswana pula and Nigerian naira, respectively – **Table 9** across. Going forward, given the resurgence of accommodative monetary policies in the advanced economies, and considering that most emerging markets currencies performed ahead of fundamentals during Q1 2016, the U.S. dollar is expected to generally gain lost ground.

4. Money Markets: Declining interest rates…

In Zimbabwe, average deposit and lending rates were subdued in Q1 206, in line with the new interest rate framework and increased competition among banking institutions. As depicted in **Fig.5** below, lending rates reflect a gradual downward trend which to a greater extent is providing a reprieve to borrowers in terms of debt repayment.

Fig.5: Average deposit and lending rates



	Savings deposits(%)	1m deposit(%)	3m deposits(%)	Individual Lending Rates	Corporate Lending rates
Q1-2015	3.4%	9.4%	11.0%	13.9%	9.5%
Q2-2015	3.5%	8.7%	10.4%	12.5%	8.8%
Q3-2015	3.1%	8.2%	9.3%	11.8%	8.5%
Q4-2015	3.0%	7.6%	8.2%	11.6%	7.6%
Q1-2016	3.0%	6.7%	7.1%	11.7%	7.3%

Source: RBZ

On the global markets, most central banks maintained accommodative monetary policy as the drive to spur economic growth continued. In fact, a total of 24 central banks eased their monetary policy stances in Q1 2016, whilst 16 tightened. Among the 24 central banks, China lowered its reserve requirements to 17%, whilst negative interest rates on deposits were introduced in Japan (-0.1%), Denmark (-0.65%), Sweden (-0.5%) and Euro zone (-0.4%). On the other hand, most Africa economies including South Africa, Nigeria, Angola and Mozambique tightened their monetary policies as the threat of rising inflation and currency outflows far more outweighed the adverse impact of higher borrowing costs. Going forward, interest rates are expected to be subdued in light of the renewed global uncertainties. However, rising inflationary pressures and the need to support currencies could result in an upward pressure on interest rates within the sub-Saharan African region.

Outlook

Economic growth prospects remain inhibited by persistent liquidity challenges and lack of competitiveness on the back of a stronger currency, among others issues. However, the Government's continued re-engagements with the international community remain key steps towards the crafting of a turnaround strategy for the economy. It is hoped that the forthcoming meeting of the IMF will result in a positive outlook for the country.

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