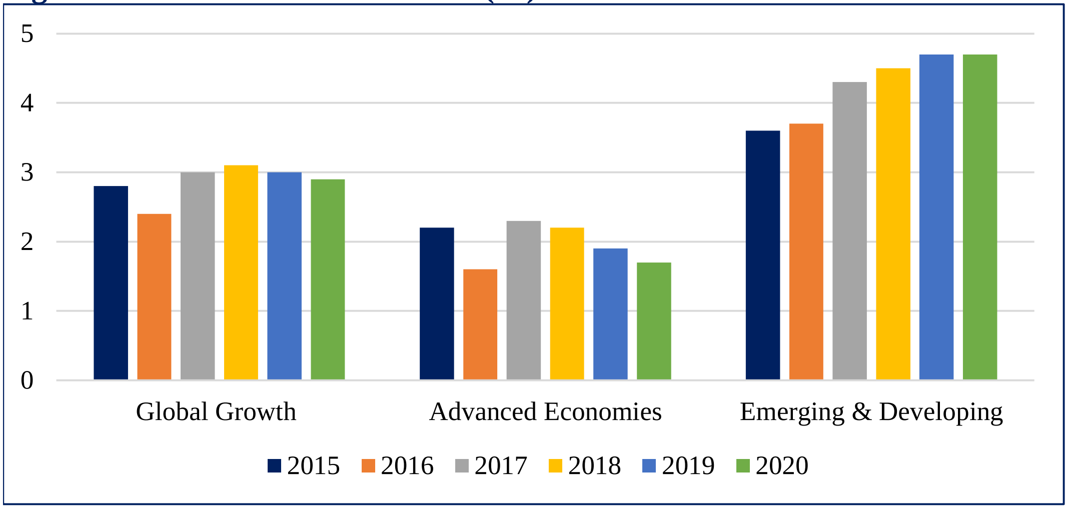
GLOBAL ECONOMY

World Bank sees stronger growth in 2018 …

…emerging market and developing economies to drive global growth in 2018…

The World Bank, in January 2018, ugraded its 2018 projected global growth rate by 0.2 percentage points to 3.1%, citing stronger than expected growth in 2017. According to the World Bank, global growth will be led by emerging market and developing economies, which are expected to grow by a collective 4.5%, as activity in commodity exporters continue to recover. However, growth in advanced economies is expected to moderate to 2.2%, as central banks continue with the gradual normalisation of policies post the global crisis. **Fig.1** below illustrates the actual and projected global and regional growth rates.

Fig.1: Global Growth Rate Trends (%)



Source: World Bank

…time to invest in human and physical capital…

Meanwhile in a statement, the World Bank Group President, Jim Yong Kim, advised that “this is a great opportunity to invest in human and physical capital. If policy makers around the world focus on these key investments, they can increase their countries’ productivity, boost workforce participation and move closer to the goals of ending extreme poverty and boosting shared prosperity”. Going forward, the World Bank noted that future growth potential is a major concern as labor and capital markets approach full employment. Protectionism and geopolitical tensions also remain the major downside risks to global and regional economic activity.

Brexit: Preliminary agreement reached …

…progress on Brexit deal…

In a joint statement released on 8 December 2017, the negotiators of the European Union “EU” and the United Kingdom “UK” announced that they had reached an agreement, in principle, on three areas under consideration in the first phase of negotiations. These were (1) protecting the rights of Union citizens in the UK and UK citizens in the Union, (2) the framework for addressing the unique circumstances in Northern Ireland and (3) the financial settlement. Progress was also made on other areas of separation, and the negotiators emphasised on the caveat that “nothing is agreed until everything is agreed”. Subsequently, on the 15th of December 2017, the leaders of the EU27 confirmed that sufficient progress had been achieved on citizen's rights, Ireland and the financial settlement, and adopted guidelines to move to the next phase of the orderly withdrawal of the UK from the EU. The Brexit process, however, is expected to be very gradual.

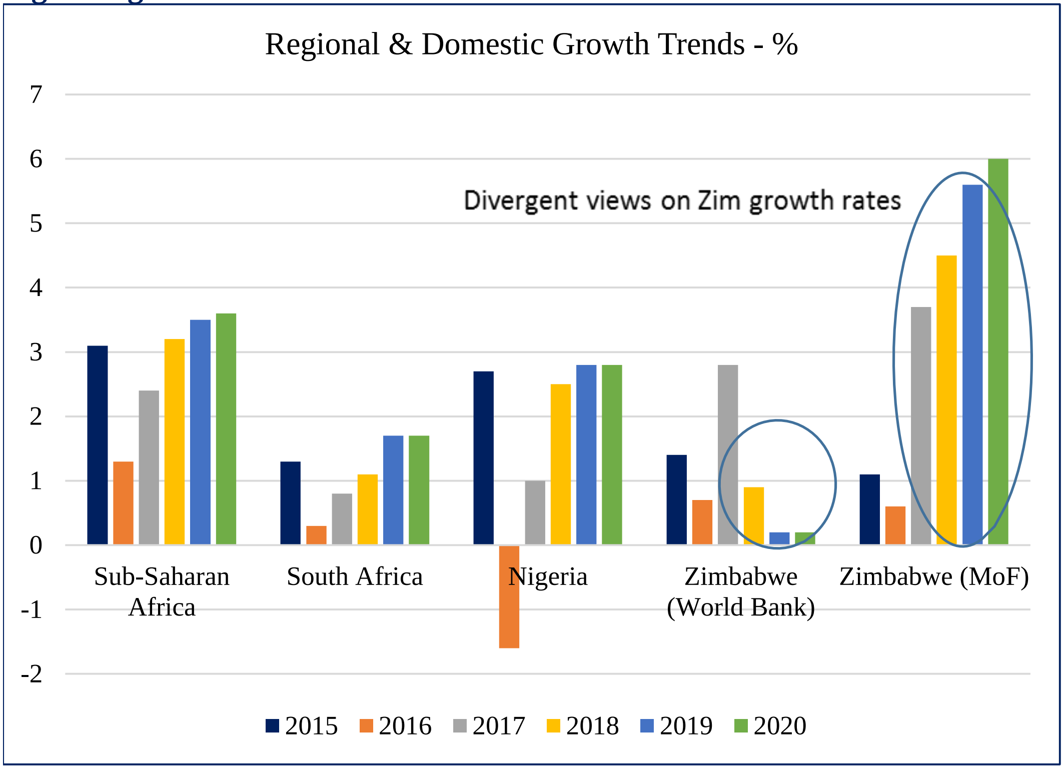
DOMESTIC ECONOMY

Economic Growth: Divergent views on Zim growth rates …

The Government of Zimbabwe expects domestic growth to increase to 4.5% in 2018, driven by mining, agriculture and construction. However, both the World Bank and the International Monetary Fund "IMF" expect significantly lower growth rates of 0.9% and 0.8%, respectively. Moreover, the recent reports by the USAID/FEWS NET with regards the adverse effects of the persistent dry conditions on the southern Africa region also further dampens the prospects for rain-fed agriculture in Zimbabwe and other regional countries like Zambia. **Fig.2** below outlines the regional and domestic growth trends as per World Bank calculations.

…the World Bank and IMF project significantly lower growth rates for Zim in 2018…

Fig.2: Regional & Domestic Growth Trends



Source: World Bank, Ministry of Finance

…need for Government to reduce the gap between policy pronouncements and implementation…

Meanwhile, the divergent growth forecasts for the Zimbabwean economy largely reflect policy uncertainties, hence the need for the Government to expedite initiatives to reduce the gap between policy announcements and policy actions, as well as foster policy certainty. Going forward, however, it is encouraging to note that the Government, in the 2018 national budget, comprehended and articulated most of the critical interventions that are needed inorder to steer the economy towards a sustainable growth path. These include, among others, addressing fiscal imbalances, enhancing policy predictability, reengagement of the international community and enhancing the ease of doing business. The Government, therefore, needs to take this further and outline clear programs of action and monitoring mechanisms under the proposed ministerial 100-day plans.

Fig 3: Rainfall patterns in Southern Africa

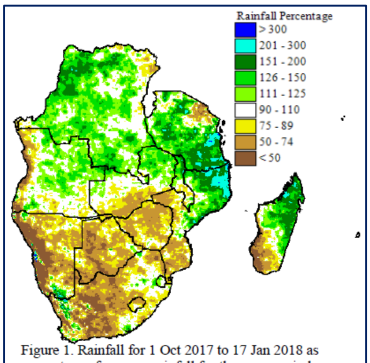


Figure 1. Rainfall for 1 Oct 2017 to 17 Jan 2018 as percentage of average rainfall for the same period.

Source:USAID/FEWS NET

Real sector developments

Agriculture – Dry conditions to suppress output and yields…

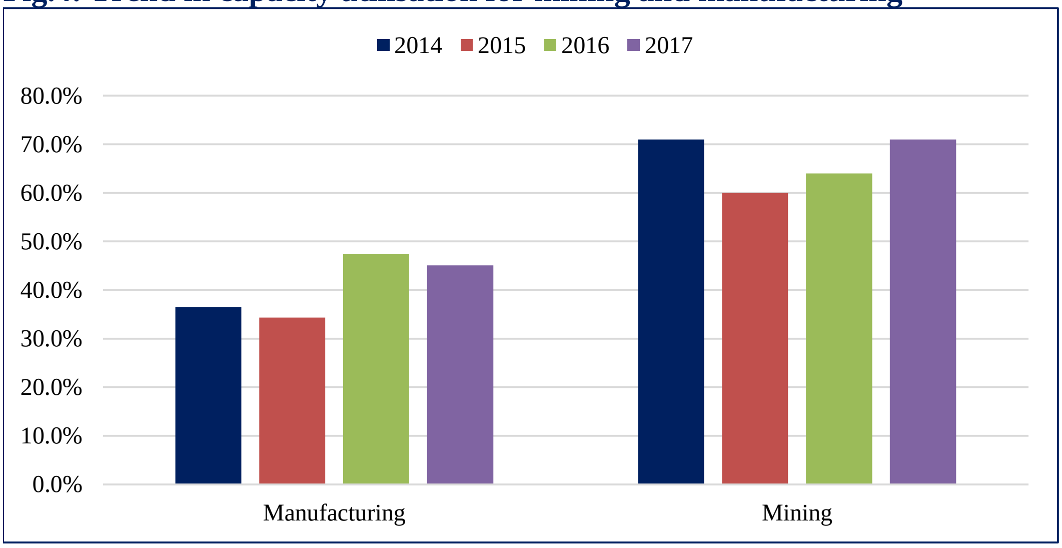
According to the USAID/FEWS NET, dry conditions intensified in most parts of southern Africa during the period to mid-January 2017. As outlined by the brown areas in **Fig.3** across, Zimbabwe together with its peers received very little rainfall. The situation was worsened by above-normal temperatures between 01 October 2017 and 17 January 2018. In addition, other challenges such as the risks of the fall armyworm (reported in Malawi, Zambia, South Africa, Namibia and Mozambique), lack of irrigation facilities and funding have also continued to exert downward risks to the projected crop output. Going forward, interventions such as investment in irrigation and mechanisation, increased research and development towards crop varieties and emerging cycles, finalisation of 99-year leases and cloud seeding are some of the measures that need to be adopted to boost production.

Industry - Miners increase capacity utilisation….

The average capacity utilisation for the mining industry increased from 64% in 2016 to 71% in 2017, according to the Chamber of Mines Zimbabwe "CoMZ". The CoMZ expressed that improved activity in chrome, diamond and coal lifted the overall mining industry's capacity utilisation. Meanwhile, according to the Confederation of Zimbabwe Industries "CZI", the weighted average capacity utilisation for the manufacturing sector fell from 47.4% in 2016 to 45.1% in 2017. The major challenges for manufacturers were, among others, cost or shortage of raw materials, low local demand, foreign currency shortages and competition from imports. **Fig.4** below depicts the manufacturing and mining sector's capacity utilisation levels between 2014 and 2017.

…Improvement in capacity utilisation for the mining industry…

Fig.4: Trend in capacity utilisation for mining and manufacturing



Source:CZI, Chamber of Mines

Going forward, swift implementation of policies and reforms enunciated by the new leadership including indigenisation and international reengagement, are expected to bolster investment, technology transfer and output for these key sectors in the short to medium term. Nonetheless, quick-wins can be realised through concerted efforts to promote import substitution of most goods for local manufacturers.

... Government expects reveue collectios to increase further in 2018...

...Government in the process of developing an implementation matrix for parastatals...

...foreign currency shortages and adverse inflation expectations drive inflationary pressures...

Fiscal Sector Developments

ZIMRA surpasses revenue targets…

According to the Zimbabwe Revenue Authority "Zimra", revenue collections for fourth quarter "Q4 2017" amounted to US$1.16b. This was against a target of US$0.880b, and actual collections of US$0.893b that were recorded during the corresponding period of 2016. Subsequently, gross revenue collections for the year 2017 amounted to US$3.978b, about 17% above budget. Net revenue collections, at US$3.75b, surpassed budget by 10%. Meanwhile, in 2018, the Government expects revenue collections to increase further to US$4.3 billion, underpinned by increased compliance, automation and an expansion of the tax base.

Progress on parastatals reforms…

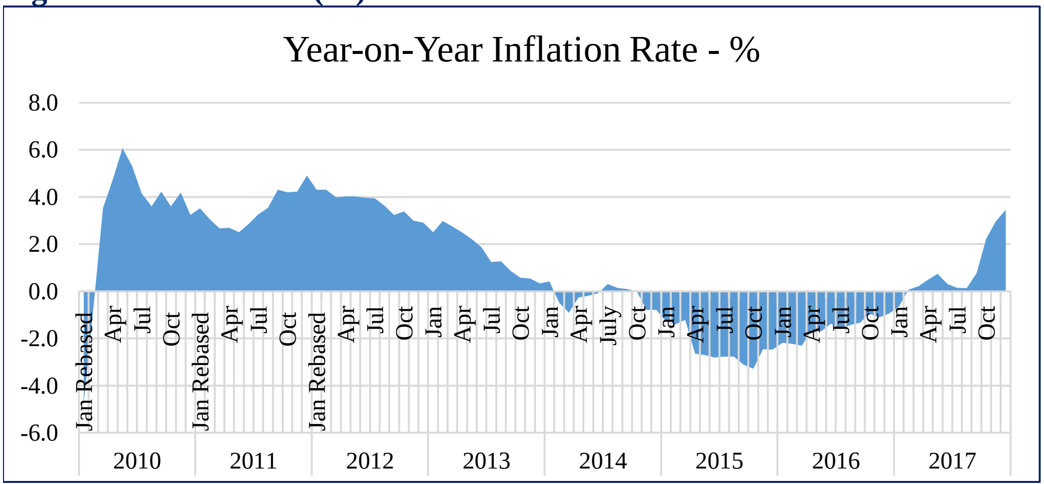
Pursuant to the Inaugural Statement and the 2018 National Budget announcement, the Minsitry of Finance and Economic Development "MoFED" advised that a joint team including the State Enterprises Restructuring Agency "SERA" and Line ministries is in the process of developing a proposal for comprehensive reform and rationalisation of the State Enterprise and Parastatals sector. The proposals will consider options such as liquidation, privatization, part-privatization, engagement of strategic or joint venture partners. They will then be subjected to Cabinet approval, after which a detailed implementation matrix will be developed. The reform of state-owned enterprises "SOEs" is expected to create opportunities for both the public and private sector through increased demand.

Monetary Sector Developments

Rising inflationary pressures …

The year-on-year rate of inflation, as measured by changes in the all items consumer price index, increased further from 2.97% in November 2017 to end the year at a near 6-year high of 3.46%. Subsequently, the quarterly average inflation rate increased from 0.35% in Q3 2017 to 2.89% in Q4 2017. Albeit a month-on-month inflation rate decline from 0.70% in Novermber 2017 to 0.5% in December 2017, the quarterly average m/m inflation rose from -0.04% in Q3 2017 to 0.93% in Q4 2017. The rise in the inflation rate was underpinned by a rise in food inflation, from 2.06% in Q3 2017 to 5.55% in Q4 2017. **Fig.5** below illustrates the trends in the *y/y* inflation rates from January 2010.

Fig.5: Inflation trends (%)



Source: ZimStat

...stabilize and reduce exchange rate premiums and eliminate adverse inflationary pressures...

Going forward, inflationary pressures are expected to remain elevated, particularly driven by the firming South African rand, notable distortions in the foreign currency market and adverse inflation expectations. Therefore, it is imperative that the authorities address the following issues, as part of measures to reduce the inflationary pressures:

1. Demonstrate strong commitment and ability to reduce the budget deficit and eliminate excess recourse to the central bank. This will send a positive signal and help reduce adverse inflation expectations.
2. Accelerate the ease of doing reforms and eliminate or reduce cost structures.
3. Given the multiplicity of goods and sources of foreign currency, the authorities need to broaden the CPI data and introduce more measures of inflation, e.g. imported goods inflation, rural area inflation, domestic goods inflation, etc. This will aid the authorities in coming up with more evidence-based policy interventions.

...fiscal and trade gaps perpetuate monetary imbalances...

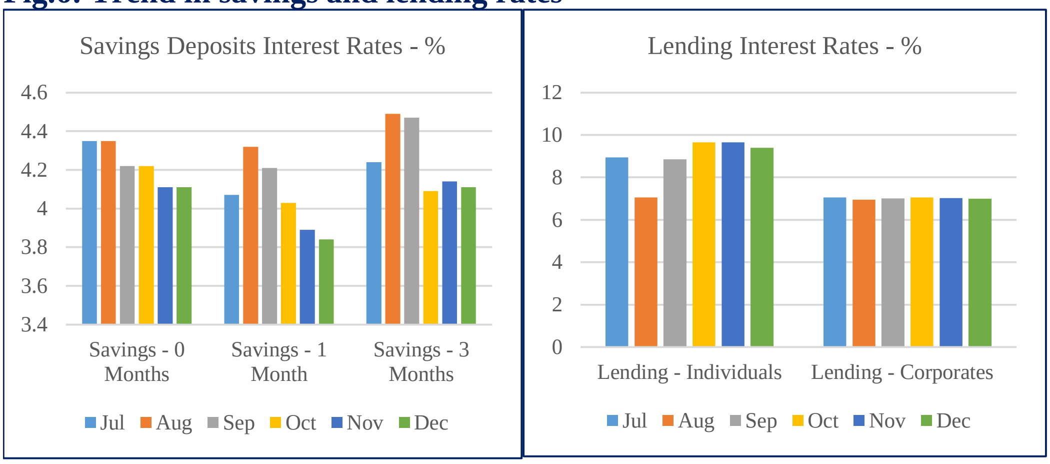
Twin deficits perpetuate monetary imbalances…

The combination of fiscal and current account deficits continued to perpetuate imbalances on the monetary sector during the period under review. This was reflected in the imbalance between the domestic liquidity, as measured by the RTGS balances, and the hard currency liquidity as measured by the cash (both bond notes and foreign currency) and banks' balances with foreign financial institutions. Addressing these imbalances requires concerted efforts towards, among other things, curtailing the Government deficit and reducing recourse to the central bank to stipulated limits, expenditure switching by both the Government and private sector towards locally produced goods and building public confidence with regards the currency system.

...both lending and savings interest rates trended downwards...

Meanwhile, both lending and savings interest rates trended downwards during Q4 2017, compared to Q3 2017, as shown in below in **Fig 6**.

Fig.6: Trend in savings and lending rates



Source: RBZ

The interest rates have generally followed the framework that was put in place by the monetary authorities as part of measures to encourage affordable lending to the private sector, and at the same time boost credit expansion.

Savings Bond extended to repatriators of foreign exchange and assets…

…RBZ in a bid to bolster savings bond uptake…

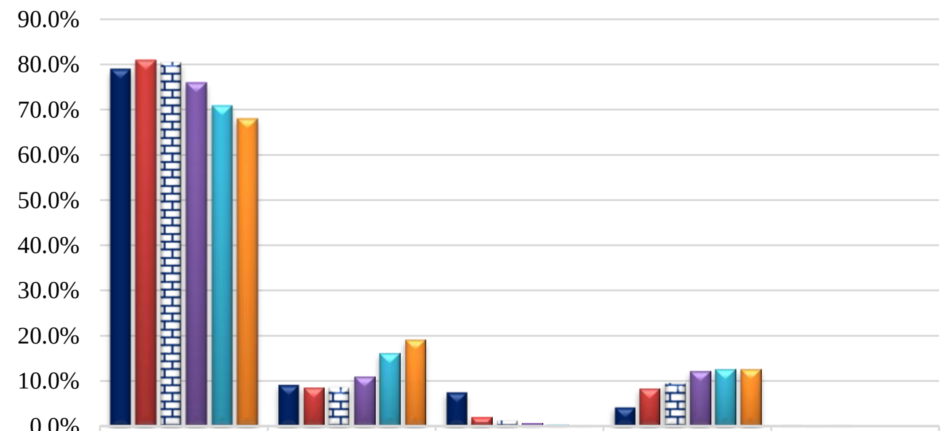
The Reserve Bank of Zimbabwe "RBZ", on 20 December 2017 announced the administrative arrangements that will apply for the repatriation of the expatriated foreign exchange and assets, "pursuant to the amnesty in respect of illegally expatriated foreign exchange and assets (gold, precious stones, currency, securities) granted in terms of the Presidential Powers Temporary) Measures (Amendment of Exchange Control Act) Regulations, SI 145 of 2017". Most notably, the RBZ advised that "…all persons who may have legally expatriated foreign exchange and assets… declare such foreign exchange or assets…(and) repatriate such foreign exchange and assets for investment in the country under the RBZ Savings Bond at the prevailing rate of 7% per annum". The move to extend the savings bond to this category of investors is meant to bolster support for the instrument/paper. Going forward, the Government would need to put in place measures that dissipate investor fears, e.g. fears of inflation, inorder to enhance participation, even by local investors, in all fixed term money market instruments.

Increased use of e-platforms…

The plastic money drive by the RBZ, together with market players, saw increased use of electronic platforms during the period under review. In fact, the mobile and POS platforms commanded 19.1% and 12.6% of total electronic transactions in Q4 2017 against 8.5% and 8.3% in the same period of 2016. On the other hand, ATM usage halved to 0.2% in Q4 2017, reflective of the prevailing cash crisis. **Fig.7** outlines the quarterly trends in the national payment system.

…Usage of POS and Mobile payment platforms on the increase…

Fig.7: Trends in National Payment System



	RTGS	Mobile	ATMS	POS	CHEQUE
Q4-2015	78.9%	9.2%	7.5%	4.2%	0.2%
Q4-2016	81.0%	8.5%	2.0%	8.3%	0.1%
Q1-2017	80.4%	8.6%	1.3%	9.6%	0.1%
Q2-2017	76.0%	11.0%	0.7%	12.2%	0.1%
Q3-2017	70.9%	16.1%	0.4%	12.5%	0.1%
Q4-2017	68.0%	19.1%	0.2%	12.6%	0.1%

Source: RBZ

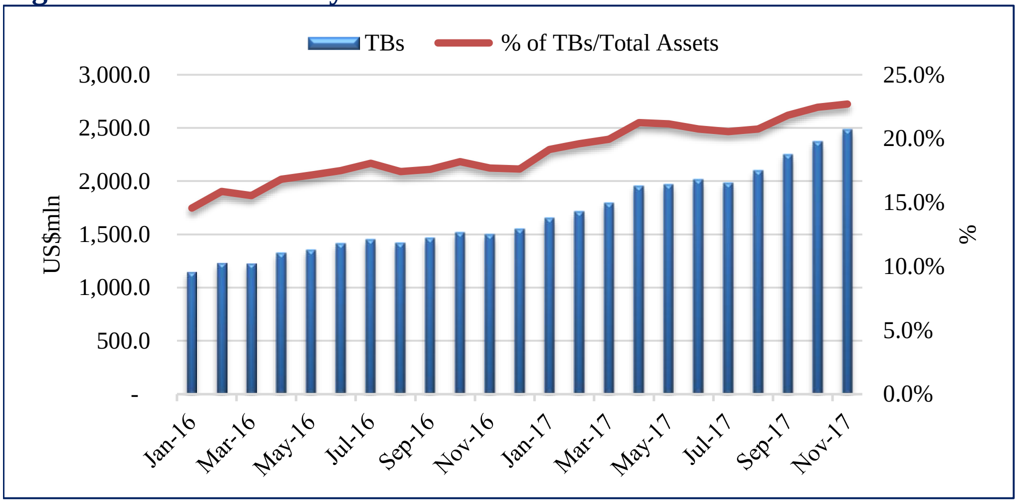
In the short term, the drive for a cashlite economy is expected to support the dominance of RTGS, POS and Mobile money platforms.

Treasury Bills

According to the RBZ, the stock of Treasury Bills "TBs" held by banking institutions rose by 10.6% from US$2.25 billion in September 2017 to US$2.49 billion in November 2017 (*latest available data*). Subsequently, sovereign paper accounted for 22.7% of total assets in November 2017, compared to 21.8% in September 2017 – **Fig.8** below.

...ratio of TB to total assets at 22.7% in Nov 2017…

Fig.8: Trend in Treasury Bills



Source:RBZ

Albeit government's target to reduce the fiscal deficit from 9.4% of GDP in 2017 to 3.5% in 2018, there exists significant upward pressure on sovereign paper issuance. Among these pressures include, (1) the intended ZISCO debt takeover, and (2) other parastatals debt takeover within SOE's reform program.

FINANCIAL SECTOR DEVELOPMENTS

Growth in sector players…

The gradual operationalization of the Women's Bank, the licensing of new microfinance institutions and bureau de change as well as the impending reopening of Time Bank Zimbabwe were the major developments during the period under review. In fact, the RBZ announced in December 2017 that "…Time Bank shall be resuming banking operations subject to prior inspections by the Reserve Bank of Zimbabwe to ensure that the bank has put in place the necessary capital and banking systems and structures". *These developments are expected to somewhat increase competition and deepen product development in the financial services sector.*

… increased competition to deepen product development …

FINANCIAL MARKETS REVIEW

1. Equities – Correction amidst strong selling pressure…

On the Zimbabwe Stock Exchange "ZSE", the industrial index fell by 20.4% to end the quarter at 333.02, whilst the mining index advanced by 16.2% to 142.40 - **Table 1** across. A market correction, following a strong rally by the stock market was the major reason for the industrials downward movement. The market breadth of 27 losers against 24 movers and 6 counters trading flat, in sharp contrast to 53 movers and 3 shakers logged in Q3 2017, reflects the market correction. **Table 2** below illustrates the Top 5 movers and shakers for Q4 2017.

Table 1: ZSE Performance

Domestic	30-Sep-17	29-Dec-17	Qtrly Change(%)
Industrial	418.39	333.02	-20.4%
Mining	122.57	142.40	16.2%
Market Cap (US$bln)	11.86	9.58	-19.2%
Turnover (US$m)	128.11	451.71	252.6%

Source: ZSE

…the industrial index fell by 20% in Q4 2017...

Table 2: ZSE Movers and Shakers

Movers				Shakers			
Counter	30-Sep-17	29-Dec-17	Change(%)	Counter	30-Sep-17	29-Dec-17	Change(%)
LAFARGE	62.00	140.00	125.81%	AXIA	33.01	18.00	-45.47%
FMHL	9.50	19.50	105.26%	INNSCOR	180.00	100.00	-44.44%
NAMPAK	12.00	18.00	50.00%	DELTA	275.02	160.00	-41.82%
ART	4.80	6.98	45.42%	OLD MUTUAL	919.29	540.00	-41.26%
GB	0.60	0.80	33.33%	CBZ	24.90	15.00	-39.76%

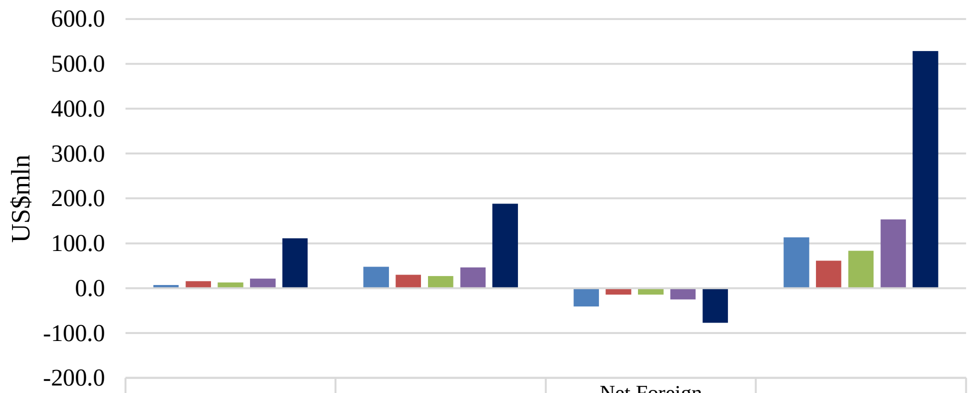
Source: ZSE

Meanwhile, the ZSE market capitalisation fell by 19.2% or US$2.28 billion to US$9.58 billion as at the end of Q4 2017. Most heavyweight counters, among them Seed Co, Simbisa, OK Zimbabwe, Old Mutual, Delta, Innscor and Axia, recorded losses ranging from 32.9% to 45.5%.

The market turnover improved by 252.6% from US$128.1 million in Q3 2017 to US$451.7 million in Q4 2017. In terms of participation, local investors were the major drivers on the buy-side. Offshore investors remained net sellers at US$76.8 million in Q4 2017 (US$24.8 million – Q3 2017) as shown in **Fig.9** below.

…. turnover improved by 253% to US$451.7 million in Q4 2017…

Fig.9: Investor Participation Trend

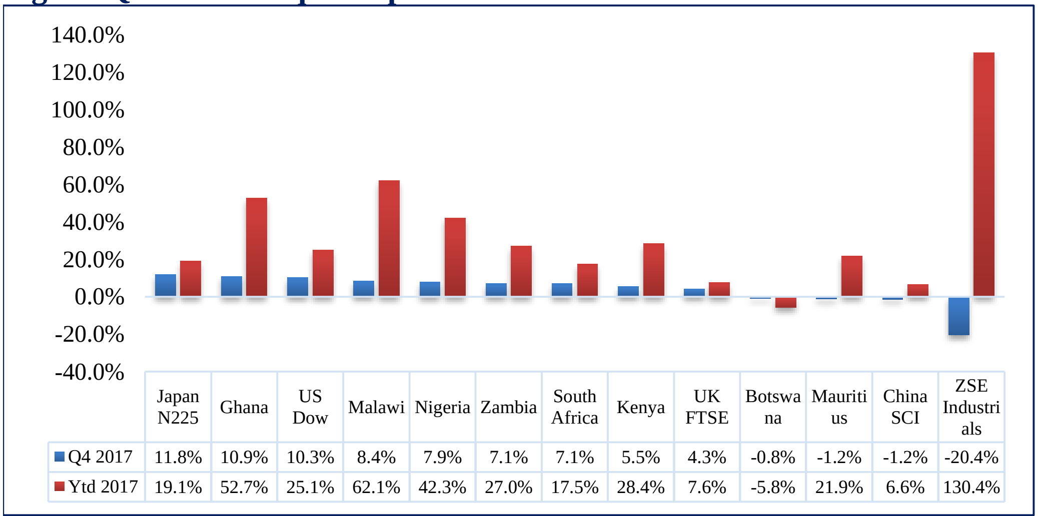


	Foreign Purchases	Foreign Sales	Net Foreign Purchases	Local Purchases
Q4 2016	7.3	47.9	-40.6	113.3
Q1 2017	15.5	29.9	-14.4	60.8
Q2 2017	12.4	26.9	-14.5	83.1
Q3 2017	21.3	46.1	-24.8	152.9
Q4 2017	111.3	188.2	-76.8	528.5

Source: ZSE

Meanwhile, with the exception of Botswana, Mauritius, China and Zimbabwe stock markets, all other major global and regional markets in our survey recorded gains in Q4 2017. Furthermore, on a year to date basis "ytd", only Botswana registered a negative return of 5.8%, reflective of a positive year for equities in the region and at global level. This was sustained by a recovery in the global economy, strong earnings in the US and EU as well as excess liquidity. Despite the weak quarterly performance, Zimbabwe was once again the top performing market at 130.4% on a ytd basis – **Fig.10** below.

Fig.10: Q4 and Ytd equities performance



Source: Various

Table 3: Quarterly commodities performance

Commodities	30-Sep-17	29-Dec-17	Q4 Change(%)	Ytd Change(%)
Metals				
Gold - US$/oz	1,283.10	1,291.00	0.6%	12.7%
Platinum - US$/oz	926.00	933.00	0.8%	2.8%
Copper - US$/t	6,405.00	7,157.00	11.7%	30.1%
Nickel - US$/t	10,175.00	12,260.00	20.5%	22.5%
Oil - US$/b	57.54	66.87	16.2%	17.7%
Agricultural				
Wheat - US$/t	164.98	156.81	-5.0%	4.4%
Soybeans - US$/t	368.72	398.00	7.9%	3.7%
Sugar - US$/pound	14.10	15.00	6.4%	-23.1%
Cotton - US$/pound	69.08	78.80	14.1%	11.5%

Source: Various

2. Commodities Markets: Recovery on most commodities …

With the exception of wheat, all major commodities registered price increases in Q4 2017. Nickel and copper prices firmed on account of dwindling inventories and prospects of higher demand, particularly in China – **Table 3** across. Oil prices advanced by 16.2% to US$66.87/b driven by rising expectations of production cuts beyond March 2018 by OPEC members, pipeline shutdown in Canada and a pipeline explosion in Libya. On the downside, wheat prices fell by 5% to US$156.81/t due to excess supply concerns of the commodity mainly in Russia. Meanwhile, on a ytd basis, commodities traded stronger, led by base metals. Going forward, the anticipated recovery in the global economy and demand from China is expected to support base metals, whilst production cartels and geopolitical tensions will most likely bolster the oil industry. On the other hand, precious metals could be dented by monetary tightening developments in the US and EU.

Table 4: Quarterly' currencies performance

Currencies	30-Sep-17	29-Dec-17	Q2 Change (%)	Ytd Change(%)
USD/ZAR	13.5156	12.3551	-8.6%	-9.5%
USD/BWP	10.2154	9.6886	-5.2%	-8.0%
USD/ZMK	9.6408	9.9512	3.2%	1.5%
USD/NGN	355.74	356.397	0.2%	17.6%
USD/GBP	0.7461	0.7411	-0.7%	-8.8%
USD/EUR	0.8472	0.8347	-1.5%	-12.0%
USD/JPY	112.526	112.647	0.1%	-3.5%
USD/CNY	6.6574	6.5098	-2.2%	-6.3%
Dollar Index - DXY	93.07	92.12	-1.0%	-9.9%

Source: Oanda

3. Currencies Markets: US dollar under pressure…

Low inflation and strong economic performances by countries around the world, particularly the EU, saw the US dollar comparatively less attractive in Q4 2017. This was despite the Federal Reserve's third interest rate hike of 25 basis points to a range of 1.25%-1.5%. As a result, the dollar index fell by 1.0% and 10% for the fourth quarter and ytd basis, respectively – **Table 4** across. Elsewhere, the election of pro-businessman Cyril Ramaphosa as the new leader of the ruling ANC saw the South African rand strengthening by 8.6% and 9.5% for Q4 and ytd, respectively. Going forward, interest differentials between the US economy and its major trading partners and anticipated monetary policy tightening is expected to support a rebound in the US dollar.

Analysts:

Andrew Chirewo
achirewo@cbz.co.zw

Victor Makanda
vmakanda@cbz.co.zw

Godknows Muwandi
gmuwandi@cbz.co.zw

Contact Details

3rd Floor, Sapphire House,
Cnr Speke/ Angwa St,
P O Box 3313,
Harare, Zimbabwe,

Tel: +263 4 759101-16
Website: www.cbz.co.zw
Email: research@cbz.co.zw

Disclaimer