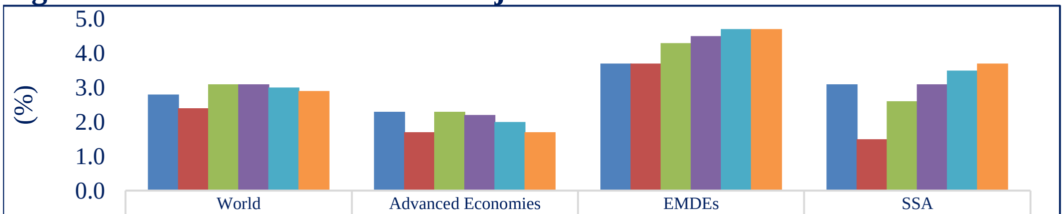
GLOBAL AND REGIONAL ECONOMY

Global growth – World Bank maintains 2018 growth forecasts…

The World Bank, in its mid-year Global Economic Prospects Report, maintained the 3.1% global growth forecast for 2018, with growth driven by Emerging Market & Developing Economies "EMDEs". **Fig.1** below outlines the global and regional growth rates from 2015 to 2020.

…World Bank maintains the 3.1% global growth forecast for 2018…

Fig.1: World Economic Growth Projections



	World	Advanced Economies	EMDEs	SSA
2015	2.8	2.3	3.7	3.1
2016	2.4	1.7	3.7	1.5
2017e	3.1	2.3	4.3	2.6
2018f	3.1	2.2	4.5	3.1
2019f	3.0	2.0	4.7	3.5
2020f	2.9	1.7	4.7	3.7

Source: World Bank

Going forward, the World Bank expects growth to slowdown to 2.9% in the next two years, as trade and investments moderate, whilst financing conditions tighten. Another major downside risk is the ongoing trade wars. In fact, the International Monetary Fund "IMF" noted that such cycles of retaliatory measures are expected to not only affect globalization, but also hurt the global economic activity. The Bretton Woods Institutions, therefore, urged policymakers in EMDEs "to rebuild monetary and fiscal policy buffers, prepare for rising global interest rates and possible episodes of financial market turbulence," inorder to maintain stability.

…EMDEs urged to rebuild monetary and fiscal policy buffers…

Africa - FDI inflows fall to 10-yr low in 2017…

According to the United Nations Conference on Trade & Development "UNCTAD", Foreign Direct Investment "FDI" inflows to Africa fell by 22% to a 10 year low of US$41.8b in 2017 due to weak oil prices and adverse lingering effects from the commodity bust. Nevertheless, Egypt ($7.4b), Ethopia ($3.6b), Nigeria ($3.5b), Ghana ($3.3b), Morroco ($2.7b) and Mozambique ($2.3b) accounted for a combined 54% of the receipts. **Table 1** below outlines the trends in global and regional FDI inflows from 2015 to 2017.

…FDI inflows to Africa fell to a 10 yr low…

Table 1: Trends in Global and Regional FDI (US$m)

Region	2015	2016	2017	2017 Change(%)
World	1,921,306	1,867,533	1,429,807	-23.4%
Developed Economies	1,141,251	1,133,245	712,383	-37.1%
Afric a	56,633	53,190	41,772	-21.5%
North Africa	12,256	13,831	13,271	-4.0%
West Africa	10,179	12,694	11,307	-10.9%
Central Africa	8,305	7,345	5,733	-21.9%
East Africa	6,865	7,883	7,625	-3.3%
Southern Africa	19,028	11,437	3,836	-66.5%

Source: UNCTAD

UNCTAD noted that "the commodity price recovery, as well as advances in inter-regional cooperation through the African Continental Free Trade Area, could encourage stronger FDI inflows in 2018, provided the global policy environment remains supportive".

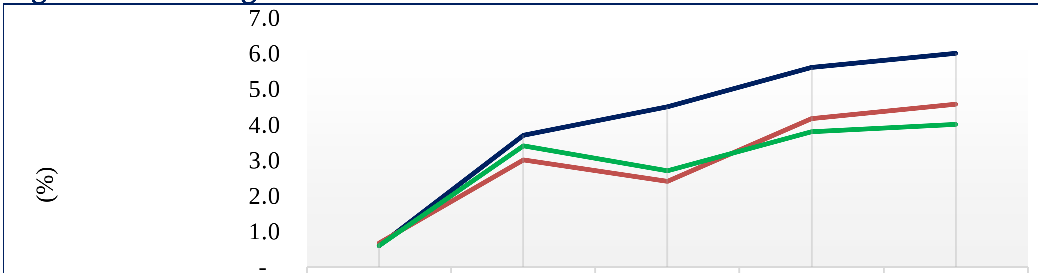
DOMESTIC ECONOMY

World Bank revises upwards growth forecasts…

…World Bank revises upwards growth forecast…

In its June 2018 report, the World Bank revised upwards the domestic growth forecasts for the period 2018 to 2020. The multilateral lender stressed that "political transitions in...countries like Zimbabwe will allow for a pickup in economic activity as the opportunity for reforms increases public and investor sentiment". **Fig.2** below outlines the growth projections by the World Bank, IMF and Government of Zimbabwe.

Fig.2 : Economic growth forecasts



	2016	2017	2018f	2019f	2020f
Ministry of Finance	0.6	3.7	4.5	5.6	6.0
IMF	0.7	3.0	2.4	4.2	4.6
World Bank	0.6	3.4	2.7	3.8	4.0

Source:Various

Meanwhile, despite the different growth projections, there appears to be a convergence concerning the growth path i.e. trending upward.

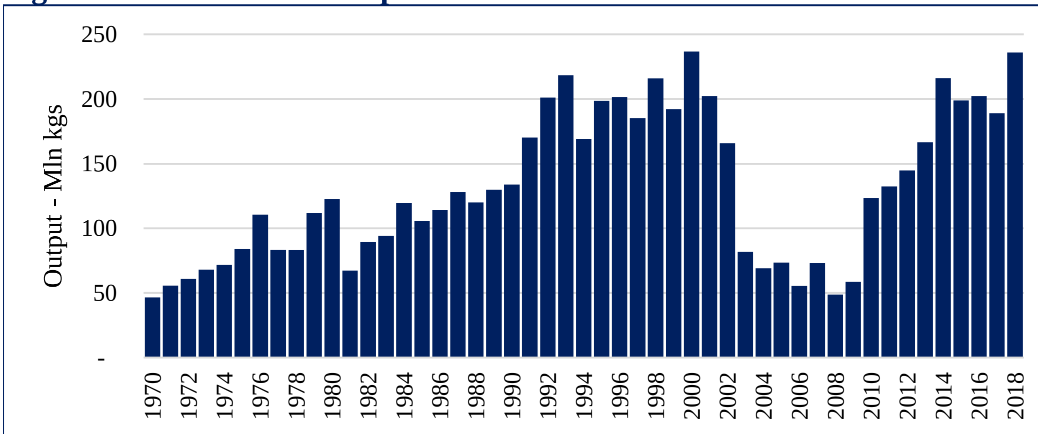
Real Sector Developments

Agriculture - Tobacco output reaches all-time high levels …

…2018 output reaches the all-time high of 236.7mln kgs recorded in 2000…

Provisional figures from the Tobacco Industry Marketing Board "TIMB", indicate that cumulative tobacco output for the 2017/18 season reached the all time high level of 236 million kgs that was realised during the year 2000. This was on the back of support from both the private sector – through contract farming schemes, and the Government – through incentive schemes. **Fig. 3** below outlines the trends in tobacco output since 1970.

Fig.3. Trend in national output



Source: TIMB

Meanwhile, although the average price for the 2017/18 marketing season was 1.1% lower than that for the previous marketing season at $2.92/ kg, earnings increased by 32% to US$688 million.

...2017 bumper harvest to ease the anticipated lower cereal output...

Food crops – Lower cereal output…

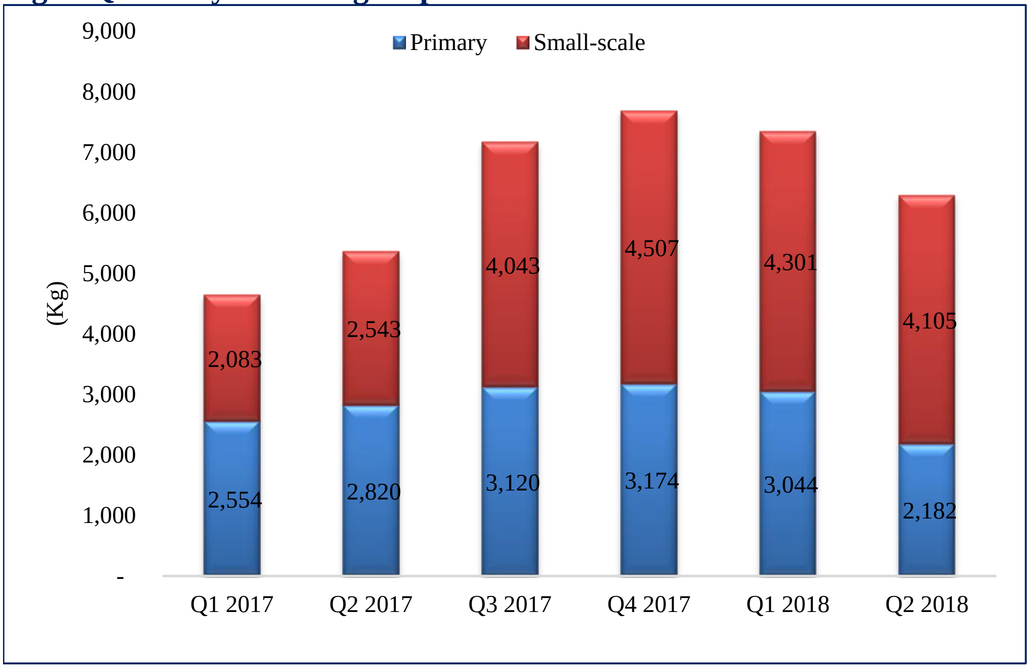
According to the Food & Agricultural Organisation "FAO", Zimbabwe is expected to produce 1.9 million tonnes of grains & cereals in 2017/18, down from the 2.6 million tonnes that were produced in the previous season. This is due to the adverse effects of the below-normal rains that were received during the first half of the cropping season and late rains received in February 2018. However, the FAO noted that the cereal shortages will be eased by the 2016/17 bumper harvests.

...artisanal miners contributed 67% of output in Q2 2018...

Mining - Rising gold output…

Cumulative gold output rose by 17.5% to 6.3 tonnes during Q2 2018, driven by increased production from artisanal and small-scale miners. In fact, their contribution increased from 47% in Q2 2017 to 67% in Q2 2018, thanks to the financial support from banks and the central bank's export incentive scheme. **Fig 4** below outlines the quarterly gold output statistics from 2017.

Fig.4: Quarterly trend in gold production



Source: Chamber of Mines (NB: *Q2 2018 does not include June figures*)

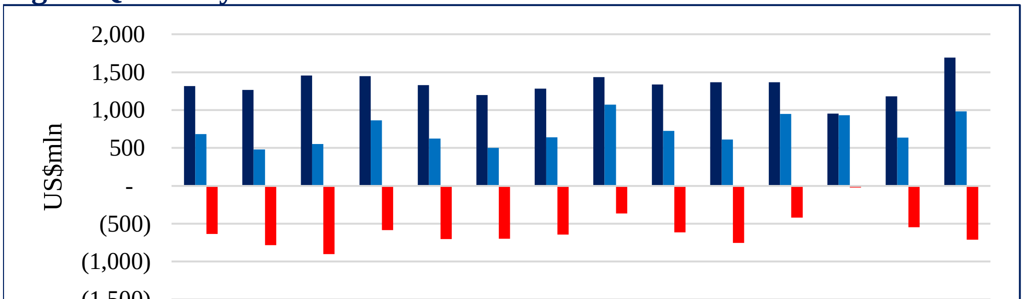
Meanwhile, baring any black swan events, the country is expected to reach the 2018 output target of 26 tons. Nevertheless, it remains imperative that the fiscal and monetary authorities pursue susitanable and broad based support schemes or incentives, inorder to ensure broad based economic growth and activity.

...trade deficit shrank by 6% in Q2 2018...

Reduction in Q2 trade deficit…

The country's trade deficit stood at US$710 mln in Q2 2018, down form US$755 mln during the comparative period of 2017, thanks to a surge in gold, tobacco, nickel and diamonds exports. However, the cumulative deficit for the first half of 2018 widened by 1.0% to US$1.26bln, from US$1.24bln in the comparative period of 2017, as the import bill remained stubbornly high. **Fig. 5** below outlines the trends in trade deficit from 2015.

Fig. 5: Quarterly trend in trade deficit



	Q1-15	Q2-15	Q3-15	Q4 - 15	Q1 - 16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4 - 17	Q1 - 18	Q2 - 18
Imports	1,317	1,265	1,457	1,448	1,328	1,200	1,283	1,434	1,338	1,366	1,370	953	1,181	1,691
Exports	683	481	554	865	626	500	641	1,071	724	612	949	931	635	981
Trade deficit	(635)	(784)	(903)	(583)	(702)	(700)	(642)	(363)	(614)	(755)	(421)	(22)	(546)	(710)

Source: ZimStat

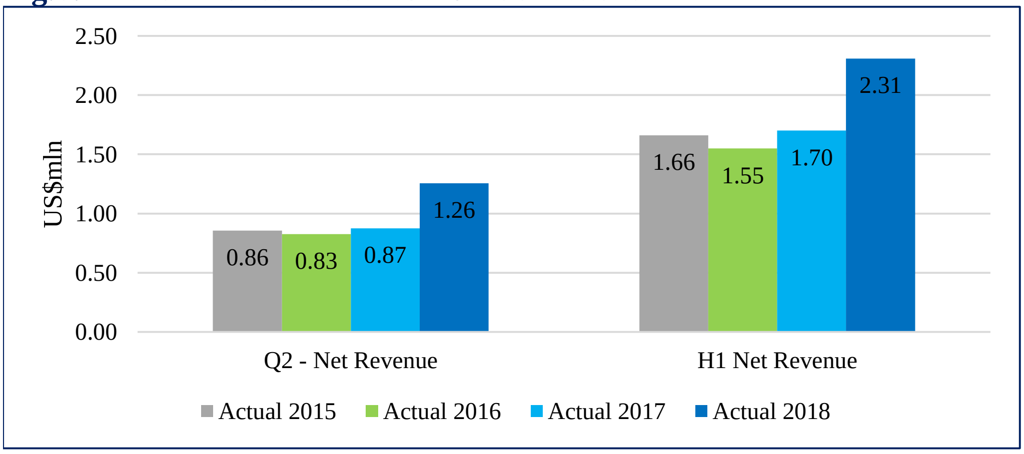
Going forward, the trade deficit is expected to remain relatively high. In fact, as an upturn in economic activity will result in higher imports of machinery, fuel and other raw materials, whilst a downturn in economic activity will also perpetuate a reliance on imported consumer goods. What will be critical, therefore, is for the authorities to pursue policies that promote export growth and import substitution.

...net revenues grew by 43.4% in Q2 2018...

Public Sector Developments
Improvement in revenue collections…

According to the Zimbabwe Revenue Authority "Zimra", net revenue collections grew by 43.4% to US$1.26 billion in Q2 2018, compared to same period of 2017. This was driven by process automation and revenue enhancement projects such as widening of the tax base through use of third-party data usage, increased client engagement, data cleansing and correction of records. The major revenue contributors were Company Tax, Individuals and VAT on Local Sales. **Fig 6** below outlines the trend in net revenue collections since 2015.

Fig.6: Trend in Gross and Revenue Collections



…inflationary pressures dissipated…

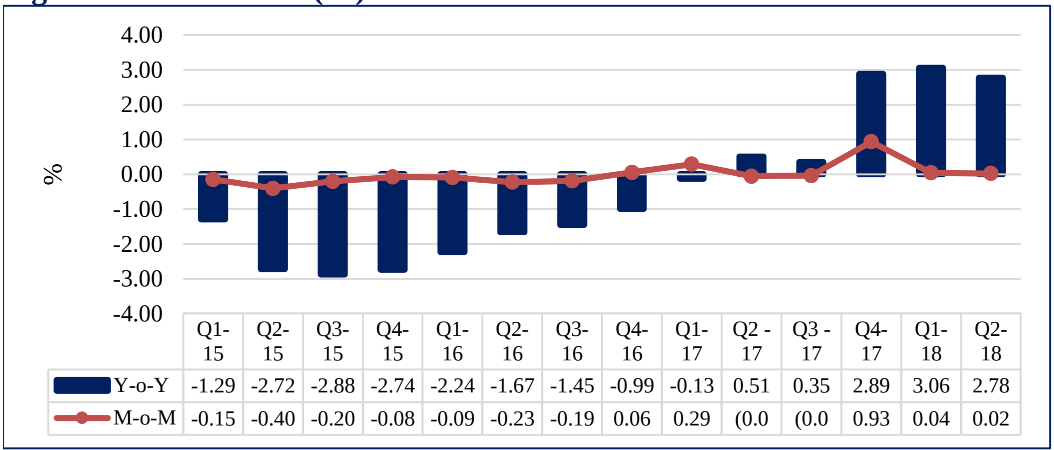
…average lending rates remained flat…

Monetary Sector Developments

Inflationary pressures slowdown in Q2…

The year-on-year rate of inflation, as measured by changes in the all items consumer price index, remained unchanged at 2.71% between April 2018 and May 2018, as inflationary pressures dissipated - before rising to 2.91% in June 2018. Subsequently, the quarterly average inflation rate decreased from 3.06% in Q1 2018 to 2.78% in Q2 2018. On the other hand, the monthly inflation rate declined from 0.08% in April 2018 to -0.05% in June 2018, subsequently reducing the quarterly average m/m inflation rate from 0.04% in Q1 2018 to 0.02% in Q2 2018. **Fig.7** below illustrates the quarterly trends in the *y/y* and m/m inflation rates from January 2015.

Fig.7: Inflation trends (%)



	Q1-15	Q2-15	Q3-15	Q4-15	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2 - 17	Q3 - 17	Q4-17	Q1-18	Q2-18
Y-o-Y	-1.29	-2.72	-2.88	-2.74	-2.24	-1.67	-1.45	-0.99	-0.13	0.51	0.35	2.89	3.06	2.78
M-o-M	-0.15	-0.40	-0.20	-0.08	-0.09	-0.23	-0.19	0.06	0.29	(0.0	(0.0	0.93	0.04	0.02

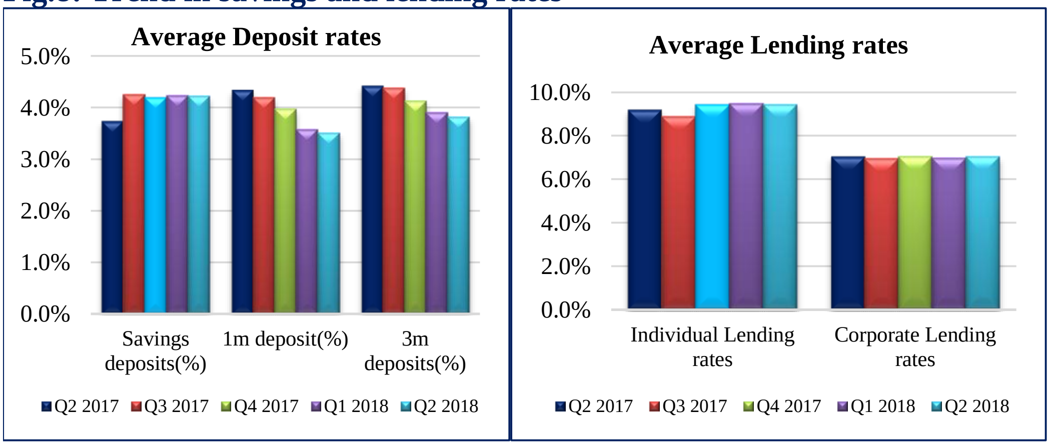
Source: ZimStat

Although the prevalence of multiple pricing structures compromises the accuracy of the inflation data, the official inflation rate remained close to the SADC long term target range of 3-7%. Going forward, rising fuel prices on the international commodities markets and foreign currency shortages are expected to continue exerting cost push inflationary pressures.

Average lending rates unchanged…

Average savings rates (1 and 3-month) declined marginally in Q2 2018, whilst lending interest rates were flat, as shown below in **Fig 8**.

Fig.8: Trend in savings and lending rates



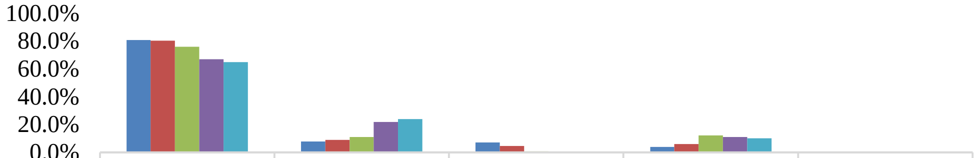
Source: RBZ

In the short term, interest rates are expected to remain within the parameters set by the central bank through the interest rates framework.

Increased use of e-platforms…

During the period under review, the RTGS, Mobile and POS platforms accounted for a combined 99.3% of the value of transactions that went through the National Payments Systems, compared to 99.8% in Q1 2018. The most notable trend was the increase in the contribution of mobile platforms from 21.8% in Q1 2018 to 24.1% in Q2 2018. **Fig.9** below outlines the quarterly trends in the national payments system.

Fig.9: Trends in National Payment System



	RTGS	Mobile	ATMS	POS	CHEQUE
Q2-2015	80.8%	7.8%	7.2%	3.9%	0.3%
Q2-2016	80.2%	8.9%	4.7%	6.0%	0.2%
Q2-2017	76.0%	11.0%	0.7%	12.2%	0.1%
Q1-2018	66.9%	21.8%	0.2%	11.0%	0.1%
Q2 2018	65.0%	24.1%	0.1%	10.3%	0.4%

Source: RBZ

…card cloning cases on the increase…

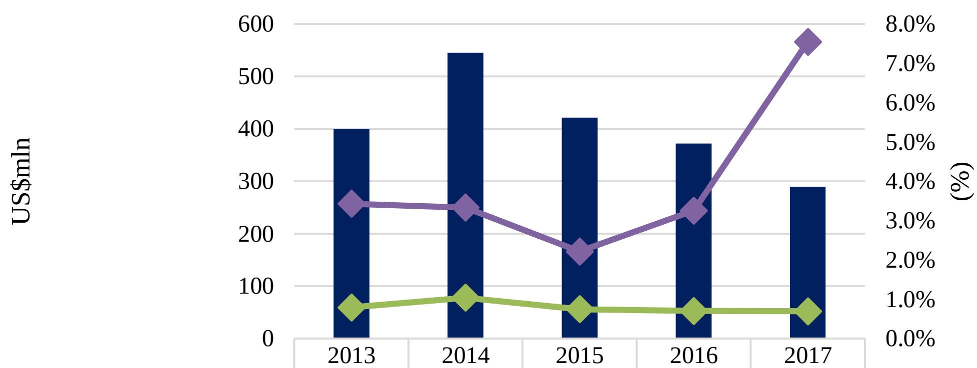
In the short term, the continued investment in mobile and digital wallets platforms is expected to result in an increase in the usage of mobile and POS facilities for payments. However, financial institutions would also need to increase investment in security systems in order to counter cyber crime.

Slowdown in FDI inflows…

According to the UNCTAD, FDI inflows to Zimbabwe fell by 22% from US$372 mln in 2016 to US$289 mln in 2017. However, the country's share of FDI improved from 3.3% to 7.6% over the same period, as the whole region also experienced a decline in net inflows. **Fig.10** below illustrates the 5-year trend in FDI inflows.

…FDI inflows fell by 22% to US$289mln in 2017…

Fig.10: Trend in FDI Inflows



	2013	2014	2015	2016	2017
Zimbabwe	400	544.8	421	372	289
% of Africa	0.8%	1.0%	0.7%	0.7%	0.7%
% of Southern Africa	3.4%	3.3%	2.2%	3.3%	7.5%

Source:UNCTAD

Banking sector - Competition for the unbanked…

During the period under review, the Zimbabwe Women Microfinance Bank "ZWMB" and Empowerment Bank "EB" were licensed to operate as women and youth-oriented microfinance banks, respectively. Both institutions were capitalized by the Government to the tune of US$10mln for ZWMB and US$12mln for EB, and they are expected to somewhat increase competition in the financial services sector and enhance financial inclusion.

…lopsided activity…

Real Estate Sector

Activity in the real estate sector remained lopsided, during the period under review. Whilst demand was generally firm, on the back of positive sentiments with regards the long term prospects economy and interest from hedge funds, actual transactions were notably subdued as a result of the unfavourable multi-tier pricing system.

FINANCIAL MARKETS REVIEW

1. Equities recovery in Q2 2018…

On the Zimbabwe Stock Exchange "ZSE", the All Share Index rose by 17.4% to end the quarter at 102.1 - **Table 3** across. The recovery, relative to Q1 2018, was supported by renewed appetite for local stocks, mainly by hedge funds. The market breadth of 35 movers against 11 shakers and 12 unchanged further confirmed the renewed demand. **Table 4** below illustrates the Top 5 movers and shakers.

Table 3: ZSE Performance

Domestic	29-Mar-18	30-Jun-18	Qtrly Change(%)
All Share Index	87.0	102.1	17.4%
Top-Ten Index	85.7	103.3	20.5%
Market Cap (US$bln)	8.29	9.79	18.1%
Turnover (US$m)	141.56	181.24	28.0%

Source: ZSE

Table 4: ZSE Movers and Shakers

Movers				Shakers			
Counter	29-Mar-18	30-Jun-18	Change(%)	Counter	29-Mar-18	30-Jun-18	Change(%)
African Sun	3.75	7.20	92.00%	Star Africa	1.90	1.30	-31.58%
Unifreight	1.46	2.52	72.60%	Mash	2.70	2.20	-18.52%
Econet	67.00	103.00	53.73%	Old Mutual	562.00	485.00	-13.70%
Bindura	3.30	5.00	51.52%	Dawn	1.59	1.42	-10.69%
Padenga	41.50	61.75	48.80%	ZBFH	36.00	33.00	-8.33%

Source: ZSE

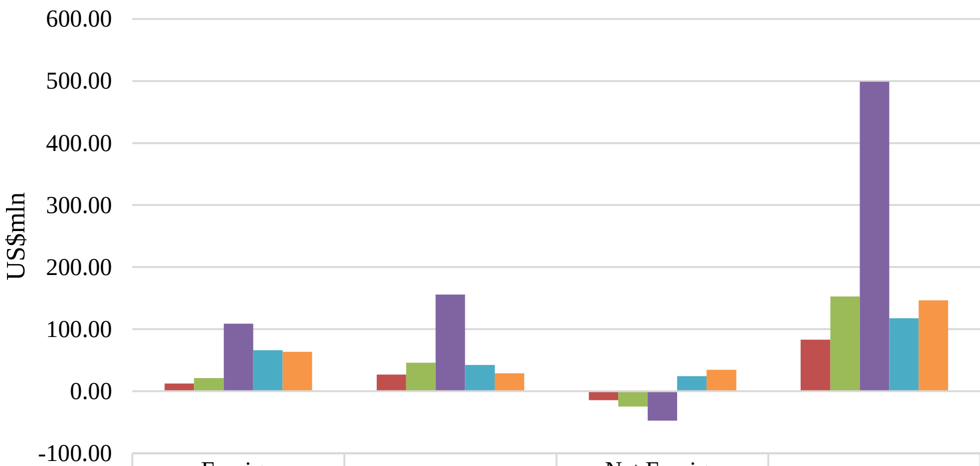
…the All-Share Index rose by 17% in Q2 2018...

Meanwhile, the ZSE market capitalisation increased by 18.1% (US$1.50 billion) to US$9.79 billion as at the end of Q2 2018. With the exception of Old Mutual and Hippo, all the Top-Ten counters recorded gains ranging 1.1% to 53.7%.

The market turnover also improved by 28% from US$141.6 mln in Q1 2018 to US$181.2 mln in Q2 2018. In terms of participation, local investors remained the major participants particularly on the buy-side. However, offshore investors maintained their net-buying position for the second consecutive quarter at US$34.7 mln, indicating foreign investor appetite for local stocks - **Fig.11**.

.... turnover advanced by 28% to US$181.2 mln in Q2 2018…

Fig.11: Investor Participation Trend

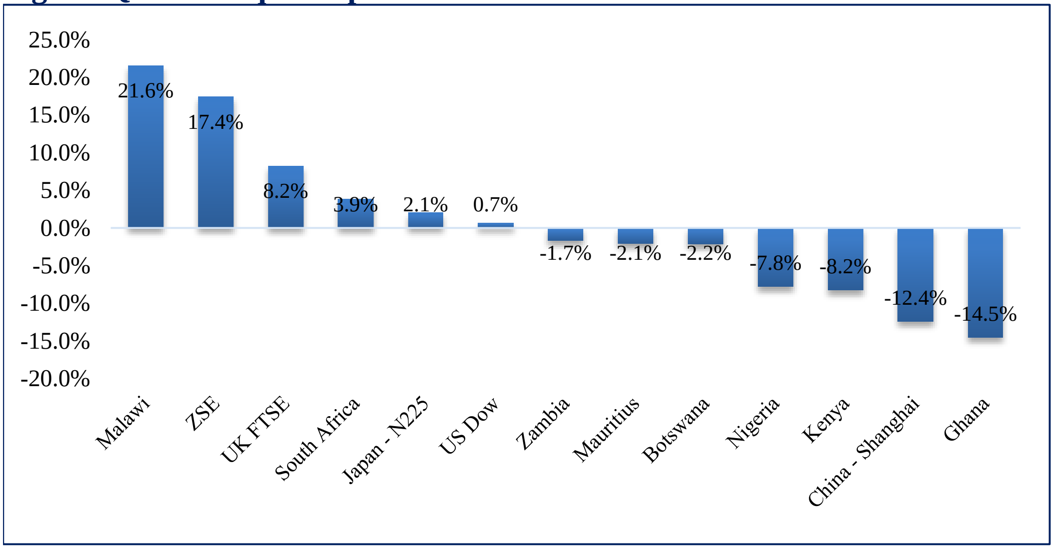


	Foreign Purchases	Foreign Sales	Net Foreign Purchases	Local Purchases
Q2 2017	12.39	26.87	-14.48	83.07
Q3 2017	21.29	46.05	-24.77	152.88
Q4 2017	108.58	155.84	-47.26	498.97
Q1 2018	66.15	42.17	23.98	117.58
Q2 2018	63.30	28.63	34.67	146.57

Source: ZSE

Meanwhile, mixed trades were recorded across regional and global stock markets in Q2 2018. The best performing market was Malawi (+22%), whilst the worst performer was Ghana (-15%). Escalating trade tensions and rising yields saw US's Dow registering a marginal 0.7% gain – **Fig.12** below.

Fig.12: Q2 2018 Equities performance



Source: Various

2. Commodities Markets: Rising oil prices…

With the exception of copper, soybeans and sugar, most commodities recorded gains in Q2 2018. Oil prices advanced by 13.0% to US$79.4/b due to production disruptions in Canada, Libya and Venezuela. Nickel prices advanced by 12.6% to US$14,910/t as robust demand and declining inventory levels outweighed trade-war concerns. On the downside, soybeans fell by 15.8% to US$334.2/t dragged by the US/China trade wars as most agro-crops are expected to suffer the most– **Table 5** across. Going forward, an escalation of global trade tensions is expected to have an adverse impact, especially on base metal and agricultural commodity prices. Precious metals, especially gold, will remain under pressure due to a strengthening US dollar. However, geopolitical tensions and anticipated tight market supports an upward trajectory for oil prices.

Table 5: Quarterly commodities performance

Commodities	29-Mar-18	30-Jun-18	Q2 Change(%)
Metals			
Gold - US$/oz	1,232.85	1,250.45	1.4%
Platinum - US$/oz	941.00	956.00	1.6%
Copper - US$/t	6,685.00	6,646.00	-0.6%
Nickel - US$/t	13,245.00	14,910.00	12.6%
Oil - US$/b	70.27	79.44	13.0%
Agricultural			
Wheat - US$/t	165.99	182.62	10.0%
Soybeans - US$/t	396.73	334.18	-15.8%
Sugar - US$/pound	12.35	11.86	-4.0%
Cotton - US$/pound	81.46	85.38	4.8%

Source: Various

3. Currencies Markets: US dollar strengthens…

The US dollar strengthened, lifted by the US Federal Reserve's second interest rate hike of 25 basis points to the 1.75-2.0% range. As a result, the dollar index advanced by 5.1% to 94.58 in Q2 2018 – **Table 6** across. Elsewhere, the yuan weakened by 5.4% following a cut in the reserve ratio requirements by the People's Bank of China, as part of measures to ease the adverse effects of a trade war and softening domestic growth. On the other hand, risk-off sentiment on most emerging market currencies led to the 16.2% weakening of the South African Rand to ZAR13.7 against the US dollar. In the short term, rising protectionist policies and monetary tightening by the US Federal Reserve is expected to perpetuate US dollar strength.

Table 6: Quarterly' currencies performance

Currencies	30-Mar-18	30-Jun-18	Q2 Change (%)
USD/ZAR	11.8183	13.7345	16.2%
USD/BWP	9.395	10.2515	9.1%
USD/ZMK	9.4458	9.9342	5.2%
USD/NGN	356.031	358.842	0.8%
USD/GBP	0.7124	0.7602	6.7%
USD/EUR	0.8116	0.8584	5.8%
USD/JPY	106.122	110.67	4.3%
USD/CNY	6.2771	6.6184	5.4%
Dollar Index - DXY	90.01	94.58	5.1%

Source: Oanda

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