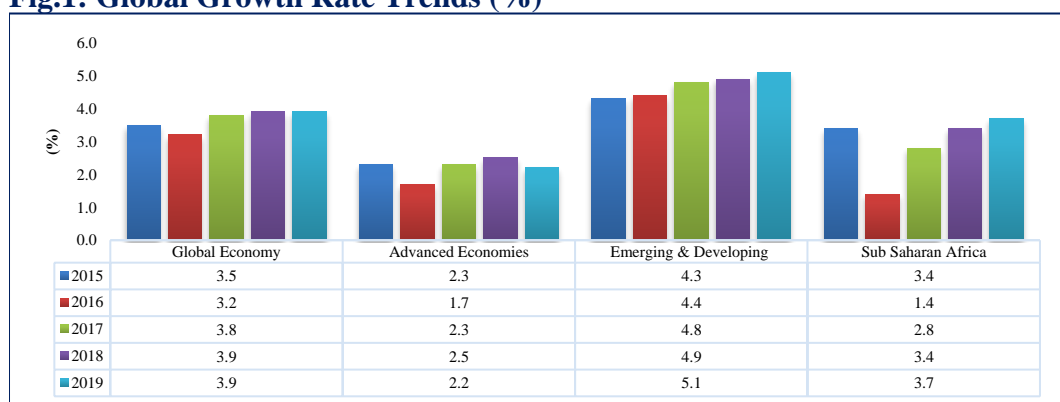


GLOBAL ECONOMY

IMF sees stronger growth amidst trade war threats...

The International Monetary Fund “IMF”, in April 2018, maintained its 2018 projected global growth rate of 3.9%, noting that growth will be anchored on “...strong momentum, favourable market sentiment, accommodative financial conditions, and the domestic and international repercussions of expansionary fiscal policy in the United States.” The IMF upgraded its forecast for advanced economies and Sub-Saharan Africa “SSA” by 0.2 percentage points “pp” and 0.1pp to 2.5% and 3.4%, respectively. SSA’s upgrade was on the basis of a recovery in commodity prices. Meanwhile, the IMF downgraded the growth projections for the Middle East and North Africa region by 0.2pp, citing geopolitical concerns. **Fig.1** illustrates the actual and projected global and regional growth rates from 2015 to 2019.

Fig.1: Global Growth Rate Trends (%)



Source: IMF

Meanwhile, the IMF maintained that tighter financial conditions, inward-looking policies and geopolitical strife present risks to the global growth outlook. The IMF Managing Director, Christine Lagarde, also cautioned that “trade wars, not only do they lead to more expensive products and limited choices, but they also prevent trade from playing its essential role in boosting productivity and spreading new technologies. As such, the best way to address macroeconomic imbalances is not to impose tariffs, but to use policies that affect the economy as a whole, such as fiscal tools or structural reforms”.

Africa signs a trade accord...

On 21 of March 2018, a total of 44 out of 55 African countries signed the African Continental Free Trade Area “AfCFTA” agreement. Amongst the hold-outs were South Africa and Nigeria, whose Governments requested more time to assess the impact of the trade accord on their economies. Nonetheless, the trade agreement is expected to remove trade barriers such as tariffs and import quotas, thereby allowing the medium-to-long term free flow of goods and services between its members. The key pillars of AfCFTA are classified into protocol on trade in goods, trade in services, rules and procedures for the settlement of disputes, intellectual property, competition policy and investment. Rwandan President, Paul Kagame advised that the AfCFTA agreement was a step in the right direction in promoting the “Made in Africa” concept. Once ratified by at least 22 countries, the AfCFTA will come into force to further promote intra-African trade, which is currently estimated at 16% behind Latin America (19%) and Asia (51%). However, the participation of major countries such as South Africa and Nigeria will ensure that the pact has a more meaningful impact.

...IMF maintains the 3.9% growth forecast for 2018...

...Economies advised to use fiscal tools rather than imposing tariffs...

...44 out of 55 countries signed the trade agreement for Africa...

DOMESTIC ECONOMY

Government expedites legislative amendments ...

During the quarter under review, government forged ahead with some of the key reforms that are required to rejuvenate investor confidence, and thus, investment, in the economy. The major initiatives included the re-engagement with the international community, gazetting of the amendments to the indigenisation and economic empowerment laws and finalisation of the 99-year leases.

Going forward, the Government needs to expedite the arrears clearance strategy, and usher a comprehensive medium-to-long term economic management program that will guide both public and private sector participation in economic development.

Real sector developments

Agriculture – Tobacco season to boost FX receipts...

The 2017/18 tobacco marketing season began during the period under review. As at 19 April 2018 (Day 19), the total volume and value traded were 9.7% and 5.9% lower than the 2016/17 comparative figures at 34.9 million kgs and US\$96.4 million, respectively - **Table 1** below.

Table 1: Tobacco Marketing Statistics as at 19 April 2018 (Day 19)

Seasonal	Total Auction	Total Contract	Total 2018	Total 2017	Change (%)
Mass sold (million kg)	6.05	28.83	34.87	38.63	-9.7%
Value (US\$ million)	15.91	80.48	96.39	102.46	-5.9%
Average Price (US\$/kg)	2.63	2.79	2.76	2.65	4.2%
Rejected %	9.86%	6.15%	6.90%	6.43%	(0.5)
Highest Price (US\$/kg)	4.99	6.22	6.22	6.00	3.7%
Lowest Price (US\$/kg)	0.10	0.10	0.10	0.10	0.0%
Average bale weight (kg)	69.0	79.0	77.0	73.0	5.5%

Source: TIMB

The Government expected the 2017/18 national output to increase to 200 million kilograms “kgs”, from the 190 million kgs that was realised during the 2016/17 season. However, both output and quality is likely to have been adversely affected by the prolonged dry spell between December and January, and the incessant rains from February 2018. Nevertheless, the opening of the tobacco marketing season is expected to somewhat result in an improvement in foreign currency liquidity during the marketing season.

Going forward, interventions such as investment in irrigation and mechanisation and technical support to small-scale farmers remain critical for sustainable development of the agricultural sector.

*...Indigenisation
amendments gazetted...*

*...RBZ increased tobacco
export incentive from 5% to
12.5%*

Industry - Retooling remains the major theme....

Table 2 below outlines some of the key developments that took place in the real sector during the period under review.

Table 2: Selected Initiatives for Industry in Q1 2018

Sub-sector	Action Plan
Food Processing and Beverages	<ul style="list-style-type: none"> - Varun Beverages starts manufacturing soft drinks (Pepsi) after investing more than US\$20mln. - Nestle Zimbabwe commissions new Cremora plant (US\$0.5mln) - Willowton Refinery Plant opened in Mutare (c.US\$40mln)
Steel	- Gazetting of Zisco Debt Assumption Bill (US\$495mln debt)
Ferro-chrome	- Zimasco out of judicial management (US\$145mln debt to be repaid in 4/5 years time)
Railway	- Diaspora Infrastructure Development Group “DIDG” in an estimated US\$400mln lease deal with NRZ for locomotives, wagons and coaches.

Source: Various

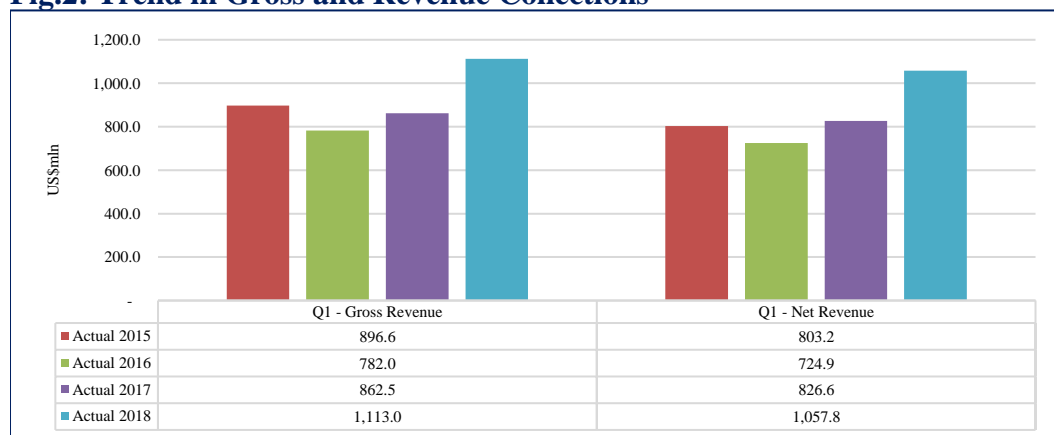
Going forward, concerted efforts will be needed towards addressing some of the challenges affecting industry, as indicated by research / survey findings from Business Member Organisations such as the Confederation of Zimbabwe Industries and Chamber of Mines. These include, among others, lack of appropriately-priced finance, use of antiquated machinery, cost or shortage of raw materials, foreign currency shortages, high utility costs and competition from imports.

Fiscal Sector Developments

ZIMRA surpasses revenue targets...

According to the Zimbabwe Revenue Authority “Zimra”, gross and net revenue collections surpassed targets by 8.1% and 2.7%, respectively during the first quarter of 2018, compared to the first quarter of 2017. This followed quarterly growth rates of 29% and 21% in both the gross and net revenue to US\$1.11 billion and US\$1.06 billion in Q1 2018, respectively – **Fig.2** below.

Fig.2: Trend in Gross and Revenue Collections



Source: Zimra

...Zisco debt assumption bill gazetted...

... Gross and revenue collections surpassed respective targets...

According to the ZIMRA, the positive variance was underpinned by revenue enhancing measures, debt follow-ups, and increased use of electronic and mobile money in transacting. However, the major area of concern for the tax collector is the relatively high tax arrears, which increased to US\$4.23 bln in Q1 2018 from US\$3.93bln in Q4 2017.

Parastatals – Cabinet in wide-ranging reforms...

The Government announced the much awaited proposed reform programs for State-Owned Enterprises “SOEs” during the period under review. The planned reforms are summarized below:

Reform	Action Plan/Unit
Mergers	<ul style="list-style-type: none"> - Potraz and Broadcasting Authority of Zimbabwe. - Establishment of One-Stop Shop through merging the Special Economic Zones Authority, Zimbabwe Investment Authority, ZimTrade and The Joint Ventures Unit - Powertel, Africom and Zarnet - Creation of one single board for ZETDC, ZPC and Zesa Enterprises. - SMEDCO, Empower Bank and Women’s Microfinance Bank into Empowerment and Development Bank. - Competition and Tariff Commission and National Competitiveness Commission.
Strategic partners	<ul style="list-style-type: none"> - ARDA, NRZ, CAAZ, Agribank, Allied Timbers, Zimglass
Liquidation	<ul style="list-style-type: none"> - National Glass Industries, Motira and Kingstons (to retain its radio licences)
Privatisation	<ul style="list-style-type: none"> - Surface Investmets, Allied Insurance, Zimbabwe Grain Bag and Ginhole investments. Gvt to retain 10% shareholding
Partial privatization incl ZSE listing	<ul style="list-style-type: none"> - Petrotrade, Zimpost, POSB, ZMDC various mining units, IDBZ, TelOne, Netone, Telecel, Zupco, Willowvale Motors & Chemplex Corporation, National Handling Services, Road Motor Services, Deven Engineering and G&W Minerals.
Other	<ul style="list-style-type: none"> - National Indigenisation and Economic Empowerment Unit falling under Ministry of Industry, Commerce and Enterprise Development.

This marked a significant step towards the SOEs reform program, which is expected to open up more opportunities for both the private and public sector players.

Monetary Sector Developments

Slowdown in inflationary pressures...

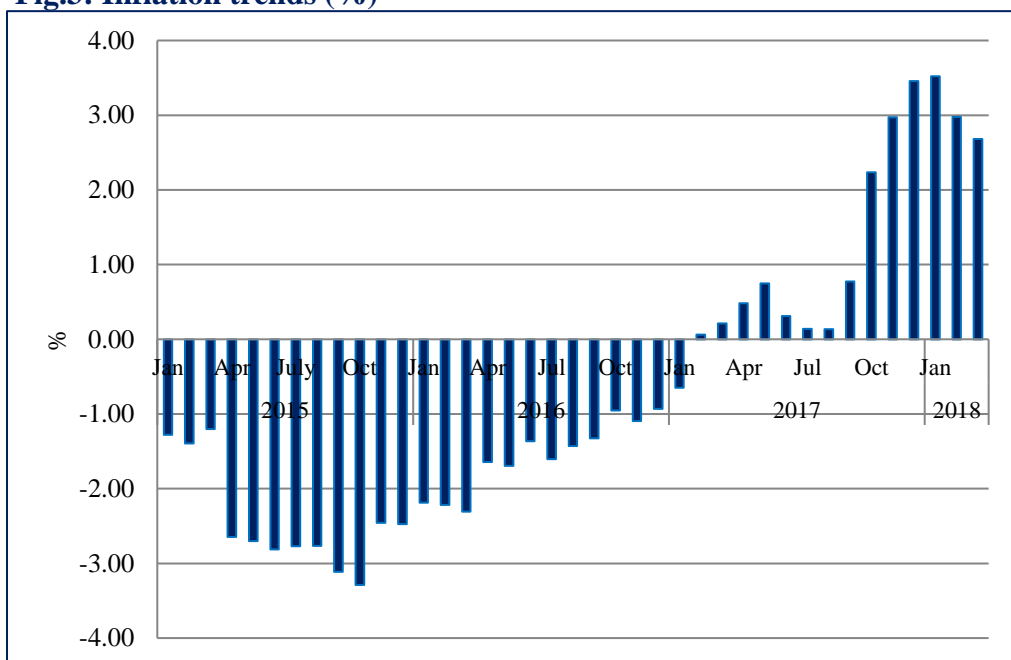
The year-on-year rate of inflation, as measured by changes in the all items consumer price index, further declined, for the second consecutive month, from 2.98% in February 2018 to 2.68% in March 2018. However, the quarterly average inflation rate slightly increased from 2.89% in Q4 2017 to 3.06% in Q1 2018. On the other hand, the monthly inflation rate declined from 0.08% in February 2018 to -0.25% in March 2018, resulting in the quarterly average m/m inflation rate falling from 0.93% in Q4 2017 to 0.04% in Q1 2018. Both food and non-food inflation declined between January 2018 and March 2018, as the foreign currency market stabilised, fuel prices fell and adverse inflation expectations somewhat dissipated. **Fig.3** on the next page illustrates the trends in the y/y inflation rates from January 2015.

...Government proposes comprehensive parastatal reform programs ...

....Annual inflation fell from 3.52% in Jan 2018 to 2.68% in Mar 2018...

...stability in FX premiums assisted in containing inflationary pressures...

Fig.3: Inflation trends (%)



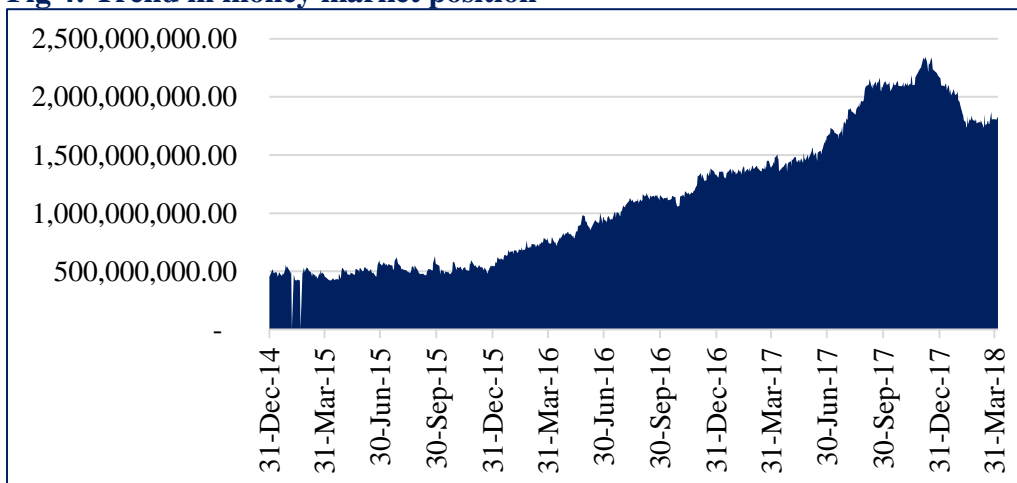
Source: ZimStat

In the short term, and barring black swan events, the rate of inflation is expected to remain largely stable, supported by stability of the foreign currency markets, restraint in money supply growth and general availability of foodstuffs from the 2017/18 agricultural season harvests. Oil prices and Government expenditure ahead of the 2018 national elections will, however, remain the major downside risks to the inflation outlook.

Slowdown in RTGS balances...

During the period under review, the monetary authorities notably exercised restraint in creating new money, and at the same time stepped up efforts to eliminate excess liquidity on the money market. Resultantly, the money market position fell by 17% from US\$2.18 bln at the end of Q4 2017 to US\$1.81 bln at the end of Q1 2018 - **Fig.4** below.

Fig 4: Trend in money market position

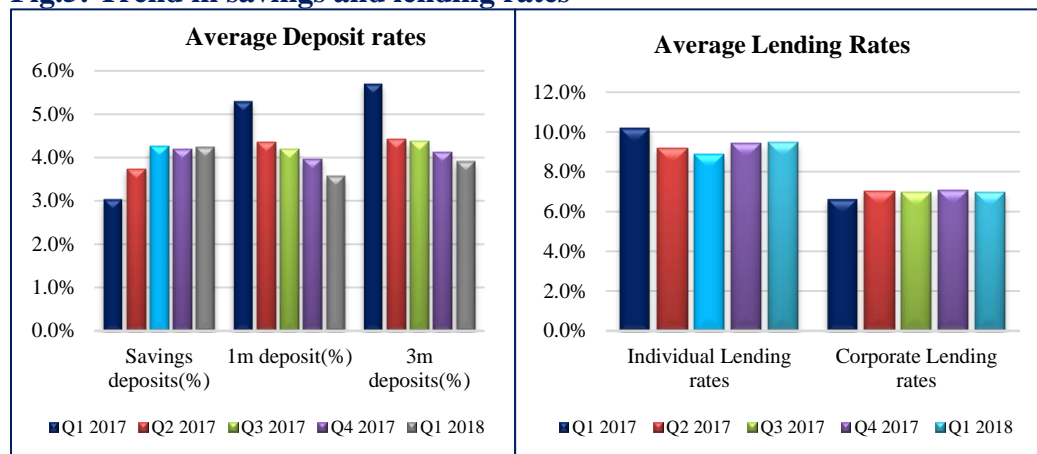


Source: RBZ

...RBZ restraints from creating new money...

Meanwhile, average savings rates (1 and 3-month) trended downwards, whilst lending interest rates were largely flat between Q4 2017 and Q1 2018, as shown in below in **Fig 5**.

Fig.5: Trend in savings and lending rates



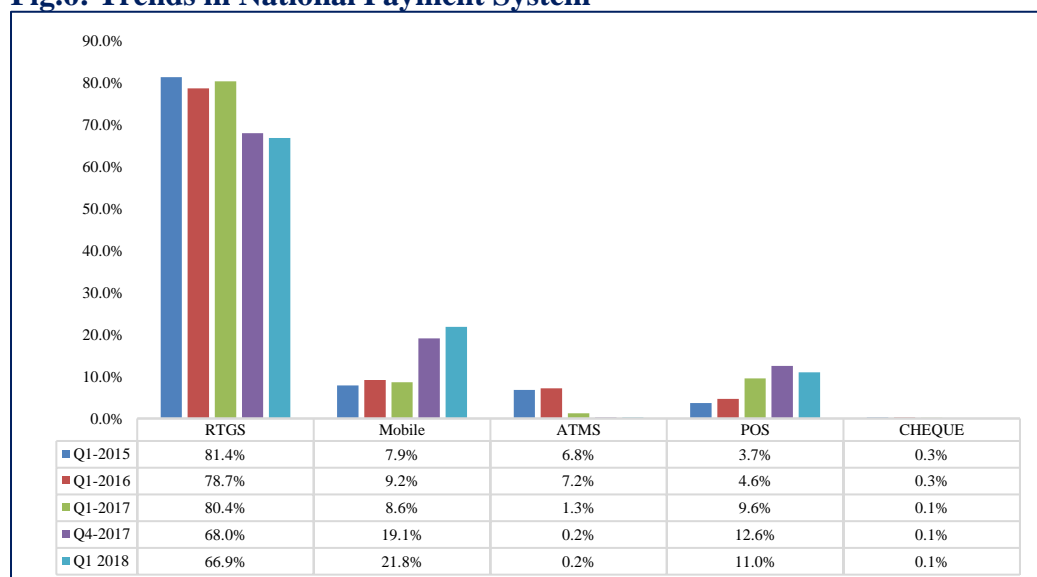
Source: RBZ

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.

Increased use of e-platforms...

The plastic money drive saw continued use of electronic platforms during the period under review. In fact, the mobile and POS platforms commanded 21.8% and 11.0% of total electronic transactions in Q1 2018, up from 8.6% and 9.6% in the same period of 2017. On the other hand, ATM usage fell from 1.3% in Q1 2017 to 0.2% in Q1 2018, reflecting the prevailing cash challenges. **Fig.6** outlines the quarterly trends in the national payment system.

Fig.6: Trends in National Payment System



Source: RBZ

... savings interest rates trended downwards in Q1 2018...

...Usage of POS and Mobile payment platforms 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. This will also require increased investment in data security by the relevant players. Going forward, investment in interoperability of platforms and sharing of infrastructure is expected to result in the unlocking of further convenience and low-cost services to the transacting public. This will also go a long way in promoting the cash lite or cashless society.

Table 3: Key Banking Sector Performance Indicators

Indicator	Dec-16	Dec-17	Change(%)
Total Net Income - US\$m	802.6	939.9	17%
Net Profit - US\$m	172.6	230.4	33%
Total Assets - US\$b	8.7	11.3	29%
Deposits - US\$b	6.5	8.5	30%
Advances - US\$b	3.7	3.8	3%
Net Capital - US\$b	1.3	1.6	18%
Ratio (%)			
ROA	2.3%	2.6%	0.35
ROE	12.6%	15.5%	2.84
Cost to Income	79.2%	75.4%	3.84
Loan to Deposit	56.6%	44.8%	(11.83)
Npl Ratio	7.9%	7.1%	0.79
Capital Adequacy	23.7%	27.6%	3.93

Source: RBZ

Banking Sector Performance (2017 Full Year Financials)

Provisional figures indicate that banking sector profits increased by 33% to US\$230.4 million for the full year ending 31 December 2017 “FY 2017” – **Table 4** across. The growth in earnings was underpinned by treasury bills and transactional income, which somewhat neutralized increased operating costs from higher investment in ICT systems upgrades. Overall, the sector’s Return on Equity improved from 12.6% in FY 2016 to 15.5% in FY 2017, whilst the Return on Assets increased from 2.3% to 2.6%. In terms of operational efficiency, the industry Cost to Income Ratio “CIR” improved from 79.2% to 75.4% during the same period.

Going forward, banks are expected to continue boosting their lending income with income from trading and transactional activities. The move towards digital marketing is expected to somewhat assist in reducing advertising costs, thereby favourably impacting on the operating costs. However, the major downside risk remains the transition from IAS 39 to IFRS 9, which, in the short term, is expected to result in downward pressure on lending income.

FINANCIAL MARKETS REVIEW

Table 4: ZSE Performance

Domestic	29-Dec-17	29-Mar-18	Qtrly Change(%)
All Share Index	100.0	87.0	-13.0%
Top-Ten Index	100.0	85.7	-14.3%
Market Cap (US\$bln)	9.58	8.29	-13.5%
Turnover (US\$m)	451.71	141.56	-68.7%

Source: ZSE

...the All-Share Index fell by 13% in Q1 2018...

.... turnover fell by 68.7% to US\$141.6 mln in Q1 2018...

1. Equities subdued in Q1 2018...

On the Zimbabwe Stock Exchange “ZSE”, the All Share Index fell by 13.0% to end the quarter at 87.0 - **Table 4** across. The decline reflected the self-correction that began during the last quarter of 2017. The market breadth of 36 losers against 11 movers and 8 unchanged further confirmed the market correction. **Table 5** below illustrates the Top 5 movers and shakers for Q1 2018.

Table 5: ZSE Movers and Shakers

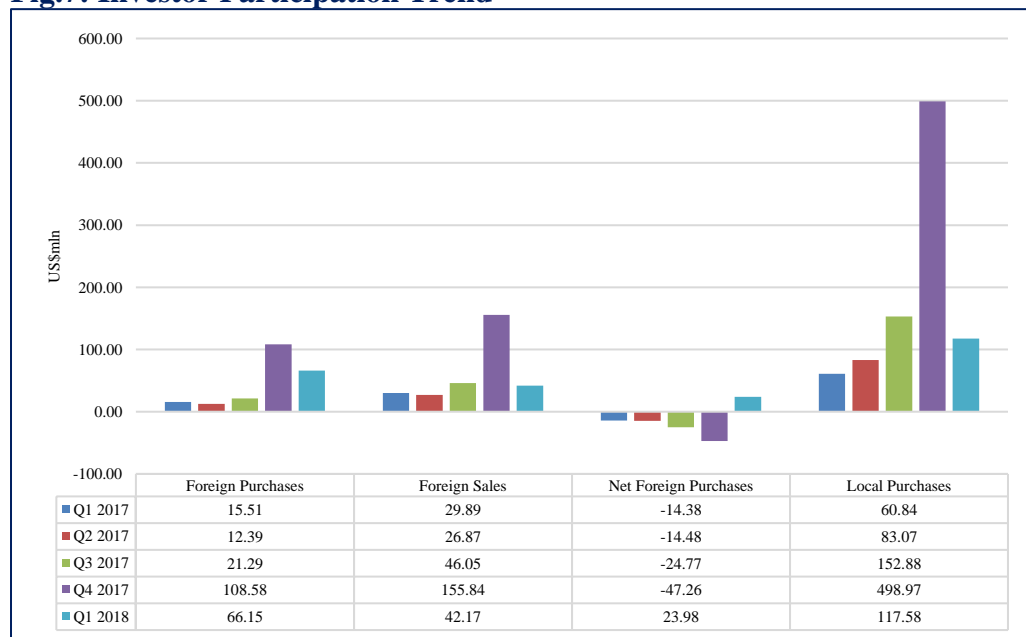
Movers				Shakers			
Counter	31-Dec-17	29-Mar-18	Change(%)	Counter	31-Dec-17	29-Mar-18	Change(%)
CAFCA	30.00	60.00	100.00%	BAT	3,600.00	2,000.00	-44.44%
ZIMPLOW	7.82	10.00	27.88%	BINDURA	5.52	3.30	-40.22%
EDGARS	4.02	4.55	13.18%	ART	6.98	4.50	-35.53%
AXIA	18.00	20.00	11.11%	CBZ	15.00	10.00	-33.33%
TSL	36.85	40.00	8.55%	ARISTON	1.70	1.14	-32.94%

Source: ZSE

Meanwhile, the ZSE market capitalisation fell by 13.5% or US\$1.29 billion to US\$8.29 billion as at the end of Q1 2018. With the exception of Old Mutual, all other Top-Ten heavyweights registered declines ranging 0.4% to 44.4%.

The market turnover also declined by 68.7% from US\$451.7 mln in Q4 2017 to US\$141.6 mln in Q1 2018. In terms of participation, local investors were the major drivers on the buy-side. However, for the first time since 2017, offshore investors closed the quarter as net-buyers at US\$24.0 mln, indicating renewed foreign investor appetite for local stocks - **Fig.7**.

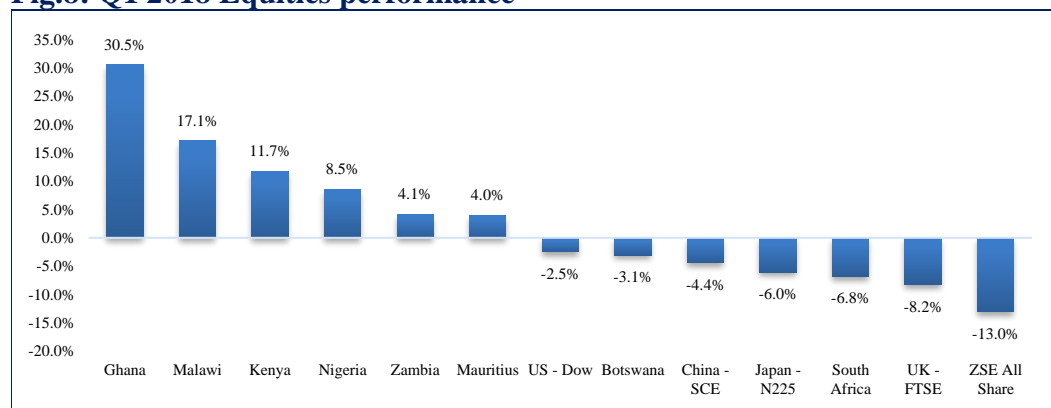
Fig.7: Investor Participation Trend



Source: ZSE

Meanwhile, mixed trades were recorded across regional and global stock markets in Q1 2018. The best performing market was Ghana (+30.5%), whilst the worst performer was the ZSE. Rising US yields and global trade wars negatively affected investor sentiment for most global markets, with the US, China and UK markets declining by 3.1%, 6% and 8.2%, respectively – **Fig.8** below.

Fig.8: Q1 2018 Equities performance



Source: Various

Table 6: Quarterly commodities performance

Commodities	29-Dec-17	29-Mar-18	Q1 Change(%)
Metals			
Gold - US\$/oz	1,291.00	1,232.85	-4.5%
Platinum - US\$/oz	933.00	941.00	0.9%
Copper - US\$/t	7,157.00	6,685.00	-6.6%
Nickel - US\$/t	12,260.00	13,245.00	8.0%
Oil - US\$/b	66.87	70.27	5.1%
Agricultural			
Wheat - US\$/t	156.81	165.99	5.9%
Soybeans - US\$/t	398.00	396.73	-0.3%
Sugar - US\$/pound	15.00	12.35	-17.7%
Cotton - US\$/pound	78.80	81.46	3.4%

Source: Various

Table 7: Quarterly' currencies performance

Currencies	29-Dec-17	30-Mar-18	Q2 Change (%)
USD/ZAR	12.3551	11.8183	-4.3%
USD/BWP	9.6886	9.395	-3.0%
USD/ZMK	9.9512	9.4458	-5.1%
USD/NGN	356.397	356.031	-0.1%
USD/GBP	0.7411	0.7124	-3.9%
USD/EUR	0.8347	0.8116	-2.8%
USD/JPY	112.647	106.122	-5.8%
USD/CNY	6.5098	6.2771	-3.6%
Dollar Index - DXY	92.12	90.01	-2.3%

Source: Oanda

2. Commodities Markets: Oil and nickel prices on the rise...

Commodities also recorded mixed trades during the period under review. On the upside, oil prices advanced by 5.1% to US\$70.27/b after the International Energy Agency raised its forecast for oil demand to 99.3 million barrels per day (bpd), from 97.8 million bpd for 2018. The rise was also on the back of production cuts by OPEC members. On the downside, copper prices fell by 6.6% to US\$6,685/t, underpinned by the imposition of tariffs on steel imports by the United States. Gold prices also declined by 4.5% to US\$1,233/oz as the commodity lost its safe-haven status amid a rate increase by the US Federal Reserve in March 2018 – **Table 6** across. Going forward, rising global trade tensions are expected to have an adverse impact, especially on base metals prices, whilst geopolitical tensions and anticipated production cuts will support an upward trajectory for oil prices. However, precious metals could find support from trade wars and geopolitical tensions.

3. Currencies Markets: US dollar remains under pressure...

The US dollar depreciated, for the fifth quarter in a row, despite the positive economic outlook which saw the Federal Reserve not only tightening monetary policy in March 2018 but also signalling additional upcoming interest rate hikes in 2018. However, persistent budget deficits and the Washington's protectionism tilt worsened its international relations and by extension the attractiveness of the US dollar to investors. As a result, the dollar index fell by 2.3% to 90.01 in Q1 2018 – **Table 7** across. Elsewhere, the South African rand strengthened by 4.3% to ZAR11.82 as investors cheered Moody's decision to change the country's credit outlook to stable from negative following the change in political and national leadership.

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