GLOBAL AND REGIONAL ECONOMY

Global growth – IMF downgrades 2018 growth forecasts…

…IMF downgrades 2018 growth forecast…

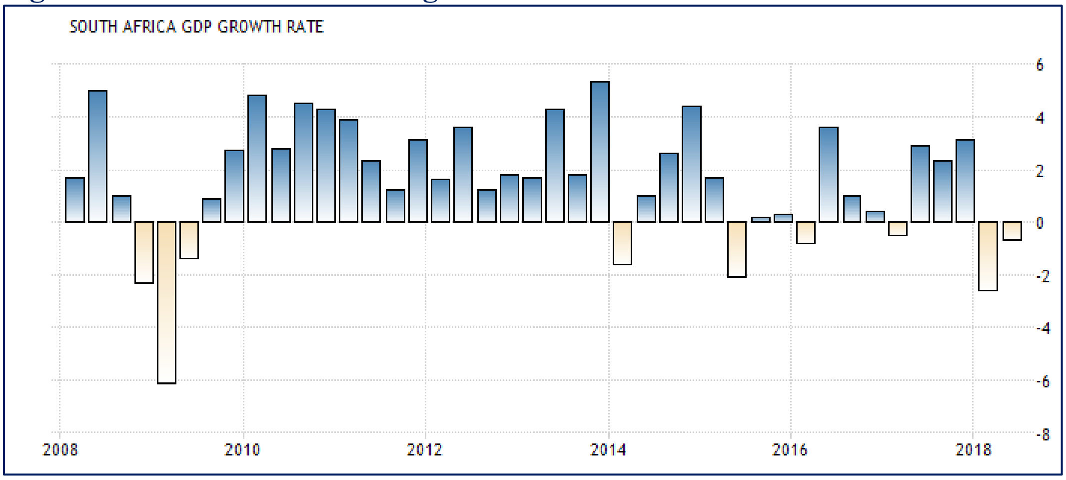
The International Monetary Fund "IMF", in its October 2018 World Economic Outlook Report, revised downwards the projected global growth rate for 2018 and 2019. The global lender effected a 0.2 pp cut from the initial 3.9% to 3.7% for 2018 and 2019, respectively, citing "…tightening financing conditions, further disruptions to trade and inadequacy of policies to address structural challenges." Among the revisions were mark-downs for both the US and China, owing to additional retaliatory import tariffs effected during the period under review. Going forward, the IMF urged policymakers " to build their fiscal buffers and enhance resilience, including upgrading financial regulatory regimes and enacting structural reforms that raise business and labor market dynamism," in dealing with the trade policy threat. This remains critical, as the IMF anticipates a 0.8% reduction in global growth from a full-blown trade war by 2020.

Africa - South Africa in recession…

…SA economy contracted registered an economic contraction of 0.7%…

According to Statistics South Africa "SSA", South Africa's economy shrank by an annualised 0.7% in Q2 2018, following a 2.6% contraction in Q1 2018. This was well below market expectations of a 0.6% growth. Major declines were recorded in agriculture (-29%), transport (-4.9%), trade (-1.9%) and manufacturing sectors (-0.3%). **Fig.1** below outlines the trend in South Africa's quarterly growth since 2009.

Fig.1: Trend in South Africa's growth rate



Source: Statistics South Africa

South Africa's recession does not only affect its citizens but also its regional peers. In fact, the IMF stated that the anticipated tepid growth of 0.8% in Africa's most developed economy for 2018 will curtail the rate of expansion for Sub-Saharan Africa to the 3-4% levels, thereby "limiting the attainment of Sustainable Development Goals." Given key risks such as low business confidence and investment related to uncertainty over land reform as well as structural challenges including high unemployment, economic growth will most likely remain subdued. Furthermore, tightening monetary conditions and the risk of further credit rating downgrades may slowdown capital inflows as well as lead to currency weakness and rising borrowing costs.

DOMESTIC ECONOMY

Transitional Stabilisation Program unveiled…

The Government launched the Transitional Stabilisation Program "TSP"during the period under review. The TSP, whose mandate emanates from the Vision 2030 of becoming "an upper-middle income economy", will run from October 2018 to December 2020, thereby guiding the 2019 and 2020 National Budgets. The TSP's key focus areas are tabulated in **Table 1** below.

Table 1: TSP's focus areas

Institutional Reforms	Productive Sector Reforms	Service Sector Reforms
Austerity measures Re-engagement Strenghten rule of law Policy consistency Devolution	Facilitate more funding Lower lending rates Enhance competitiveness Strengthen command agric Land reform compensation Agric commodity exchange	Parastatals reforms Rebrand Zimbabwe Innovation and research E-Governance Promote savings culture

Table 2: TSP Statistical Targets

Indicator	2018e	2019f	2020f
Real GDP Growth (%)	6.3	9.0	9.7
Inflation (Annual Average) %	4.0	5.0	5.0
Revenue and Expenditure			
Total Revenue (US$m)	5,737	6,412	7,259
Recurrent Expenditure - % of GDP	20.2%	20.1%	19.0%
Employment Costs - % of GDP	14.6%	13.5%	12.1%
Capital Expenditure - % of GDP	11.1%	7.2%	6.6%
Budget Balance - % of GDP	-9.0%	-5.2%	-3.5%
Balance of Payments Accounts			
Exports (US$m)	5,076	5,653	6,429
Imports (US$m)	7,342	8,398	9,364
Current Account Balance (US$m)	(2,267)	(2,744)	(2,935)

Source:TSP

Meanwhile, the TSP framework is outlined in **Table 2** across, with the key highlight being the projected economic growth of 9.0% from 2019. Thus, whilst other countries that have embarked on similar reforms like Zimbabwe, e.g. Argentina and Egypt, have attained rapid post crisis growth, the Zimbabwean authorities would need to commit considerable effort towards the following, inorder to realise the targeted growth:

- Economic diplomacy, especially with the United States,
- Debt resolution - both foreign and local,
- Trust & confidence building, e.g through policy consistency & consultation,
- Policy implementation, i.e. follow through on policy pronouncements, and,
- Deepening of local financial markets.

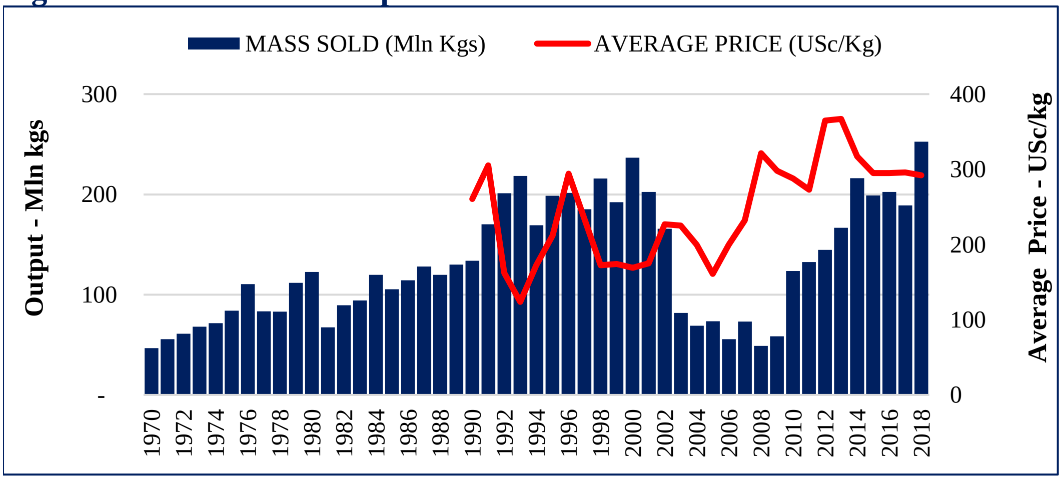
Real Sector Developments

Agriculture - Tobacco output at all-time high…

…contract farmers accounted for 86% and 87% of total volume and value, respectively…

According to the Tobacco Industry Marketing Board "TIMB", cumulative tobacco output rose to an all-time high of 252.5 mln kilograms "kg" during the 2017/18 marketing season. The previous all-time high of 236.7 mln kg was recorded in the year 2000. Contract farmers accounted for 86% of the total output during the 2017/18 season, compared to 84% in the previous season. **Fig. 2** below outlines the 48- year trend in national tobacco output.

Fig.2. Trend in national output



Source: TIMB

Meanwhile, the value of output rose by 32% to US$737.2 mln inspite of the relatively low average prices. In fact, the average price declined by 1.4% to US$2.92/kg, compared to US$2.96/kg in the prior season. Going forward, further interventions such as the planned investment in irrigation under the TSP, mechanisation and continuous improvements in collateral security will significantly help in the sustainable development of the sector.

Food security – El-Nino forecast for 2018/19 rainfall season…

…below-normal rainfall expected in the 2018/19 season…

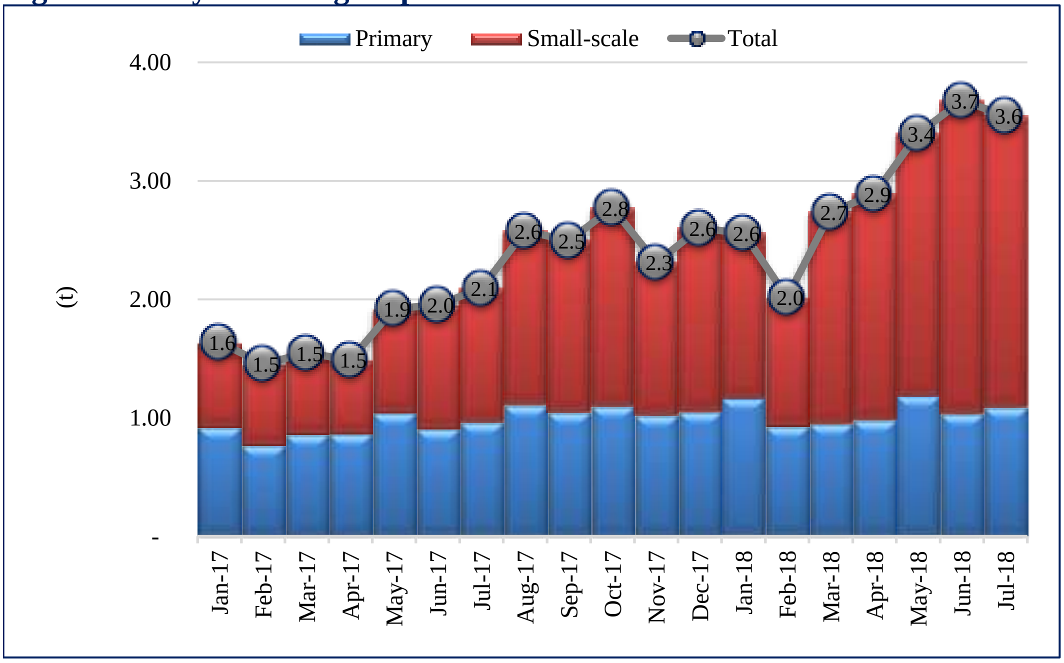
According to the Famine Early Warning Systems Network "Fewsnet", the early international forecasts indicate an El Nino phase for the period October 2018 to January 2019. Based on these forecasts, which were also affirmed by the Government, below-average rainfall is most likely from October 2018 to January 2019. In addition, there is an increased probability for a late start of the rains in some areas, which are likely to be erratic in terms of spatial and temporal distribution. Given the anticipated forecast, pro-active measures such as investment in cloud-seeding, irrigation systems, migration to early maturity varieties and small grains, remains critical.

Mining - Rising gold output…

…artisanal miners contributed 65% of output…

Cumulative gold output from Jan-July 2018 increased by 72.2% to 20.8 tonnes "t", compared to 12.1t in the comparative period. This expansion was largely driven by output from small-scall miners, whose combined output rose by 135% to 13.5t. Primary producers recorded a 16% increase to 7.3t, over the same period. As a result, small-scale miners' contribution rose from 48% in 2017 to 65% in 2018, underpinned by improved financial support from banks and the central bank. **Fig 3** below outlines the monthly gold output statistics from 2017.

Fig.3: Monthly trend in gold production



Source: Chamber of Mines

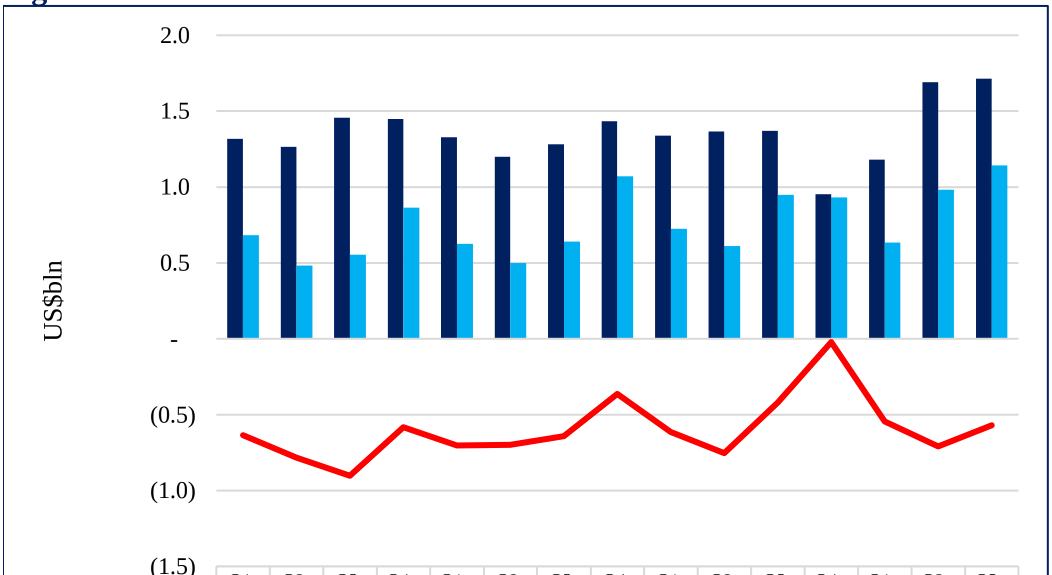
In the short term, the gold sector presents another huge success story for the economy after tobacco for 2018. Further initiatives, particularly on value addition are essential in enhancing export earnings from this sub-sector.

…trade deficit fell by 20% in Q3 2018…

Reduction in Q3 trade deficit …

The country's trade deficit fell by 19.6% to US$0.57b in Q3 2018, compared to US$0.71b in Q2 2018. A relatively higher growth in exports (+17%) against that on imports (+1.3%), helped in reducing the trade deficit. On the export front, the major growth drivers were ginned cotton (+2,718%), tobacco (+166%) and gold (+11%) riding on increased output levels for 2018. In terms of imports, notable increases were registered on medicaments, wheat and fertiliser. Meanwhile, on a cumulative basis between Feb and Sept, the trade deficit widened by 9.8% to US$1.83b in 2018, compared to $1.66b in 2017. **Fig. 4** below outlines the quarterly trends from 2015 to date.

Fig. 4: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	Q3 - 18
Imports	1.3	1.3	1.5	1.4	1.3	1.2	1.3	1.4	1.3	1.4	1.4	1.0	1.2	1.7	1.7
Exports	0.7	0.5	0.6	0.9	0.6	0.5	0.6	1.1	0.7	0.6	0.9	0.9	0.6	1.0	1.1
Trade deficit	(0.6)	(0.8)	(0.9)	(0.6)	(0.7)	(0.7)	(0.6)	(0.4)	(0.6)	(0.8)	(0.4)	(0.0)	(0.5)	(0.7)	(0.6)

Source: ZimStat

In the short term, policy measures to grow the export base, e.g export incentives, including tax holidays and ease of doing export business as well as measures to promote domestic consumption, will go a long way in redressing the trade gap.

…net revenue collections rose by 22.6% in Q3…

Fiscal Sector Developments

Improvement in revenue collections…

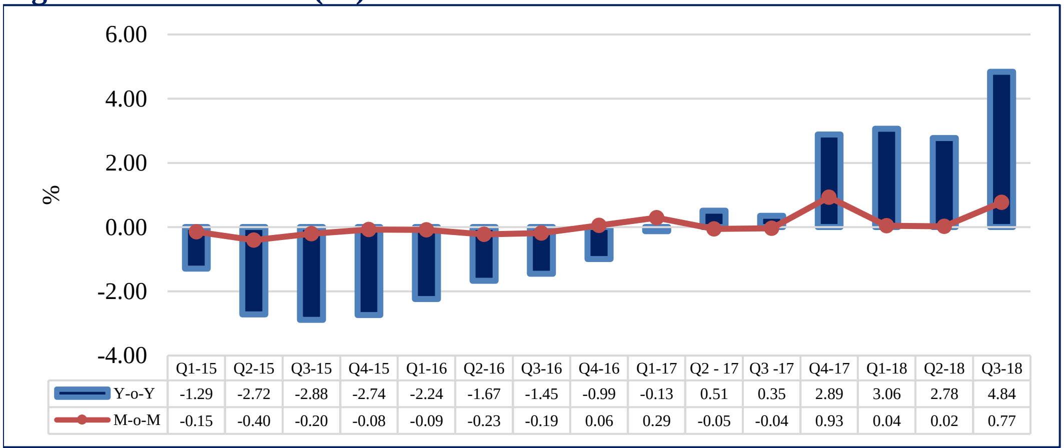
According to the Zimbabwe Revenue Authority "ZIMRA", net revenue collections grew by 22.6% to US$1.19 billion in Q3 2018 from $967.8 million recorded in Q2 2018. This was driven by revenue enhancement measures, firm stance on corruption and improved compliance due to increased use of e-commerce channels. The major contributors to revenue were Excise duty (21%), VAT on Local Sales (19%) and Individuals (18%). Despite improved revenues, the tax debt marginally rose from US$4.54 billion in Q2 2018 to US$4.55 billion in Q3 2018. Going forward, and following the public outcry over the recently introduced 2% tax on intermediated money transfers, the Government is expected to continue utilising the ease of doing business reforms towards developing a tax framework that promotes simplicity, flexibility and equity, among other good attributes.

Monetary Sector Developments
Rising inflationary pressures in Q3…

The year-on-year rate of inflation, as measured by changes in the all items consumer price index, further increased from 4.3% in July 2018 to an 8-year high of 5.4% in September 2018. Likewise, the quarterly average inflation rate surged from 2.78% in Q2 2018 to 4.84% in Q3 2018. On the other hand, the monthly inflation rate eased from 1.0% in July 2018 to 0.9% in September 2018 due to a slow down on the non-food basket. Nonetheless, the quarterly average m/m inflation rate rose from 0.02% in Q2 2018 to 0.77% in Q3 2018. **Fig.5** below illustrates the quarterly trends in the *y/y* and m/m inflation rates from January 2015.

….Annual inflation rose to an 8-year high of 5.4% in Sept 2018…

Fig.5: 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	Q3-18
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	4.84
M-o-M	-0.15	-0.40	-0.20	-0.08	-0.09	-0.23	-0.19	0.06	0.29	-0.05	-0.04	0.93	0.04	0.02	0.77

Source: ZimStat

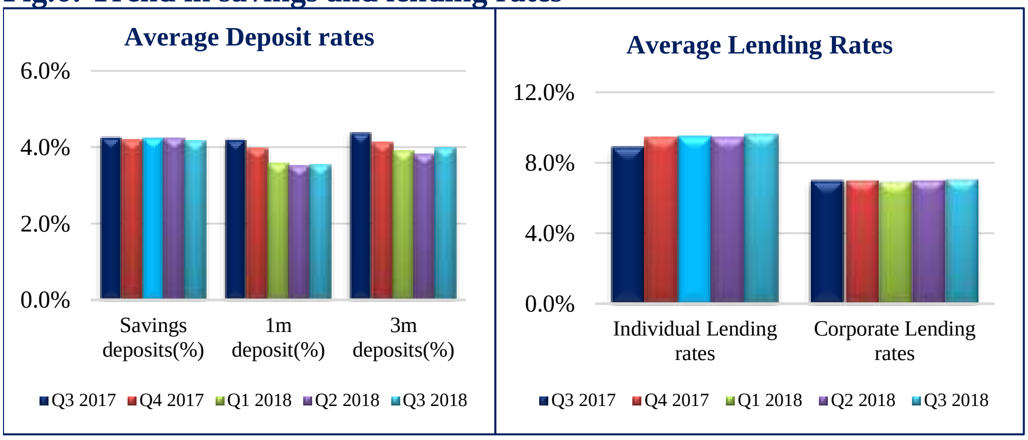
Inflationary pressures are expected to remain elevated in the short-term period, reflecting adverse inflation expectations, foreign currency shortages and general cost build up. It is hoped that the authorities will continue to improve the credibility of the inflation data through, for example, developing alternate inflation measures for non basic commodities or for imported goods. This will also assit in building public confidence in national statistics as well as shaping Government policy.

Average lending rates unchanged…

With the exception of the 3-month deposits, average savings rates (1 and 3-month) were broadly flat between Q2 2018 and Q3 2018. The same scenario was also registered on the average lending rates as shown below in **Fig 6**.

…average lending rates remained flat…

Fig.6: Trend in savings and lending rates



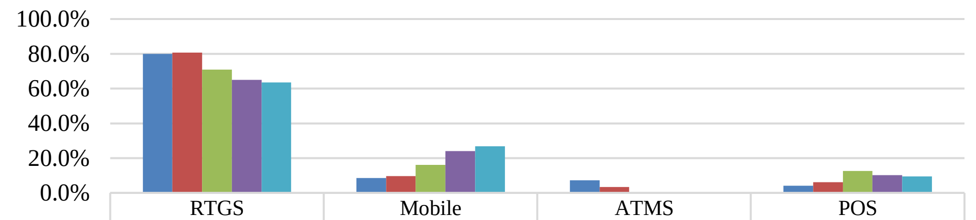
Source: RBZ

Meanwhile, going forward, the policy makers are expected to continue syncronising policy interventions. For example, on one hand, the TSP aims to build savings, and this requires high interest rates. High interest rates should also be an essential part of the central bank's monetary policy tightening, which will in turn help in fighting inflation. On the other hand, however, the TSP envisages low interest rates of 8% to support productive sectors, but this contradicts the savings mobilization and inflation fighting aspirations.

Increased use of e-platforms…

During the period under review, the RTGS, Mobile and POS platforms remained the major payments channels, accounting for a combined 99.9% in value terms (99.3%- Q2 2018). The most notable trend was the sustained increased usage in mobile money platforms from 24.1% in value terms in Q2 2018 to 26.8% in Q3 2018 in line with the high mobile penetration ratio in the country and limited cash transactions. **Fig.7** below outlines the trends in the national payments system.

Fig.7: Trends in National Payment System (Value Terms)



	RTGS	Mobile	ATMS	POS
Q3 2015	79.9%	8.5%	7.3%	4.1%
Q3 2016	80.6%	9.6%	3.4%	6.2%
Q3 2017	70.9%	16.1%	0.4%	12.5%
Q2 2018	65.0%	24.1%	0.1%	10.3%
Q3 2018	63.6%	26.8%	0.1%	9.5%

Source: RBZ

…card cloning cases on the increase…

The total volumes processed rose by 20.5% to 569.0 million in Q3 2018 compared to 472.1 million in Q2 2018. On the other hand, the total value of processed transactions grew by 12.5% from $32.3 billion in Q2 2018 to $36.3 billion in Q3 2018. Meanwhile, increased cyber risk will continue to pose a significant risk for relevant players, hence the need for investment in data security.

Table 3: Soundness Indicators

Indicator	Dec-17	Mar-18	Jun-18
Total Assets - $b	11.25	10.95	12.35
Total Loans - $b	3.8	3.78	4.08
Net Capital Base - $b	1.58	1.61	1.61
Total Deposits - $b	8.48	8.24	9.53
Net Profit - $m	241.94	85.58	176.09
ROA	2.6%	0.9%	1.8%
ROE	15.5%	5.2%	11.2%
CAR	27.6%	27.9%	26.3%
LDR	44.8%	45.9%	43.5%
NPL	7.1%	7.1%	6.2%
Liquidity Ratio	62.6%	62.4%	68.5%
Cost to Income Ratio	75.4%	68.6%	67.6%

Source:RBZ

Financial sector – Improvement in credit risk…

According to the Reserve Bank of Zimbabwe, the banking sector remained profitable and sound as at 30 June 2018. At profitability level, the industry Return on Equity "ROE" increased from 15.5% in Dec 2017 to an annualized 22.3% in June 2018, sustained by growth in interest income (investment securities) and non-funded income (transactional activity). Although cost pressures remained high, the industry Cost to Income Ratio improved from 75.4% in Dec 2017 to 67.6% in June 2018 – **Table 3** across. The improvement in non-perfoming loans ratio from 7.1% to 6.2%, though below the regulatory 5% target, also gradually helped in easing credit risk. Going forward, the sector will remain under pressure from further compression in net interest margins due to potential tightening of money market conditions. Asset quality, balance sheet values and capital levels will also come under short term pressure from ongoing fiscal and monetary reforms, as well as the full adoption of tighter accounting standards such as IFRS 9.

FINANCIAL MARKETS REVIEW

1. Equities extend gains in Q3 2018…

On the Zimbabwe Stock Exchange “ZSE”, the All Share Index advanced by 12.8% to end the third quarter at 115.1 (*17.4% - Q2 2018*) - **Table 4** across, driven by excess local liquidity and hedge funds. **Table 5** below illustrates the Top 5 movers and shakers between Q2 and Q3 of 2018.

Table 4: ZSE Performance

Domestic	30-Jun-18	30-Sep-18	Qtrly Change(%)
All Share Index	102.1	115.1	12.8%
Top-Ten Index	103.3	117.6	13.8%
Market Cap (US$bln)	9.79	12.27	25.3%
Turnover (US$m)	181.24	231.29	27.6%

Source: ZSE

Table 5: ZSE Movers and Shakers

Movers				Shakers			
Counter	30-Jun-18	30-Sep-18	Q3 Change	Counter	30-Jun-18	30-Sep-18	Q3 Change
Powerspeed	7.00	14.99	114.1%	Medtech	0.05	0.01	-80.0%
Turnall	1.10	2.07	88.2%	Star Africa	1.30	0.89	-31.5%
Zimplow	11.50	20.25	76.1%	ZPI	1.91	1.60	-16.2%
Dawn	1.42	2.40	69.0%	Fidelity	12.00	10.30	-14.2%
CBZH	10.25	15.00	46.3%	ZBFH	33.00	30.00	-9.1%

Source: ZSE

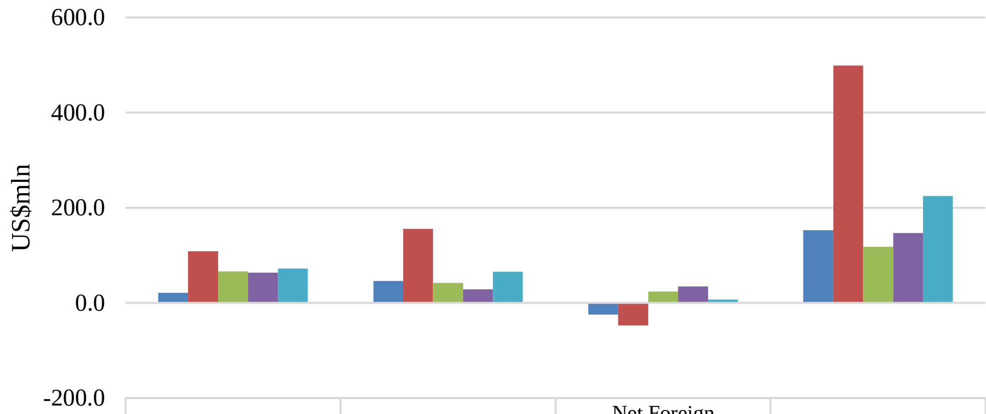
…the All-Share Index advanced by 12.8% in Q3 2018…

Meanwhile, the ZSE market capitalisation increased by 25.3% (US$2.47 billion) to US$12.3 billion as at the end of Q3 2018. With the exception of Seed Co, all the Top-Ten counters recorded gains in capitalisation ranging 3.5% to 24.5%.

…. turnover advanced by 28% to US$231.3 mln in Q3 2018…

The market turnover also improved by 28% from US$181.2 mln in Q2 2018 to US$231.3 mln in Q3 2018. In terms of participation, local investors maintained their dominance particularly on the buy-side. On the other hand, offshore investors though lower than Q2 2018 position, retained their net-buying position for the third consecutive quarter at US$6.8 mln - **Fig.8** below.

Fig.8: Investor Participation Trend

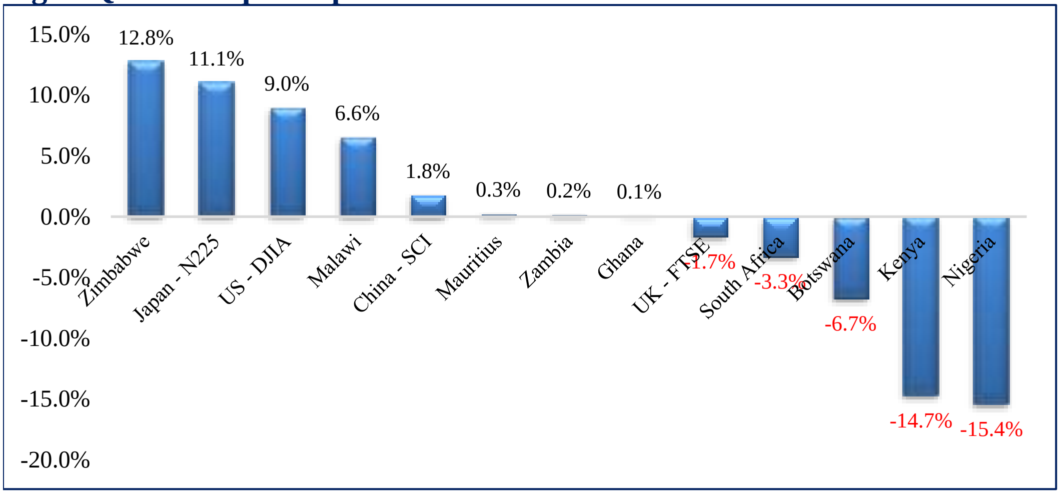


	Foreign Purchases	Foreign Sales	Net Foreign Purchases	Local Purchases
Q3 2017	21.3	46.1	-24.8	152.9
Q4 2017	108.6	155.8	-47.3	499.0
Q1 2018	66.1	42.2	24.0	117.6
Q2 2018	63.3	28.6	34.7	146.6
Q3 2018	72.5	65.7	6.8	224.5

Source: ZSE

Meanwhile, mixed trades were recorded across regional and global stock markets in Q3 2018. The ZSE market registered the largest return of 13%, whilst the worst performer was Nigeria (-15%). Growing political uncertainty ahead of 2019 general elections led to a sell-off on the Nigeria Stock Exchange – **Fig.9** below.

Fig.9: Q3 2018 Equities performance



Source: Various

Going forward, in the event that the ongoing fiscal and monetary reforms result in a deepening of the money market and firming of interest rates, underpinned by a low inflation environment, the stock market is likely to experience a sharp correction as investors realign portfolios.

2. Commodities Markets: Rising oil prices…

With the exception of oil and wheat, most commodities recorded price declines in Q3 2018. In fact, oil prices advanced by 4.1% to a 4-year high of $82.7/b on anticipated supply disruptions caused by the renewal of sanctions on Iran as well as the decision by OPEC members not to increase output. On the downside, nickel prices fell by 16.3% to $12,480/t due to weakening investor sentiment following another round of US-imposed tariffs on c.$200bln worth of Chinese goods – **Table 6** across. Platinum prices fell by 14.7% to $815/oz dragged by the flight-to-safety by investors following the Turkey crisis which affected prices of precious metals. This negatively affects local platinum miners and related export earnings. Going forward, base metals and agro-commodity prices are expected to remain subdued mainly due to trade tensions between the US and China. 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 6: Quarterly commodities performance

Commodities	30-Jun-18	30-Sep-18	Q2 Change(%)
Metals			
Gold - US$/oz	1,250.45	1,187.25	-5.1%
Platinum - US$/oz	956.00	815.00	-14.7%
Copper - US$/t	6,646.00	6,180.00	-7.0%
Nickel - US$/t	14,910.00	12,480.00	-16.3%
Oil - US$/b	79.44	82.72	4.1%
Agricultural			
Wheat - US$/t	182.62	187.58	2.7%
Soybeans - US$/t	334.18	308.83	-7.6%
Sugar - US$/pound	11.86	10.42	-12.1%
Cotton - US$/pound	85.38	76.76	-10.1%

Source: Various

3. Currencies Markets: US dollar strengthens…

The US dollar strengthened, lifted by the US Federal Reserve's third interest rate hike of 25 basis points to the 2-2.25% range. As a result, the dollar index marginally advanced by 0.6% to 95.13 in Q3 2018 – **Table 7** across. Elsewhere, the South African rand weakened by 2.9% to ZAR 14.1/US$1 following the economic contraction in Q2. The Zambia kwacha also fell by 22.9% to ZMK12.2/US$1 due to low investor sentiment in response to rising debt levels and an aid freeze by Britain and Finland over the suspicious misuse of social welfare funds. In the short term, rising protectionist policies and monetary tightening by the US Federal Reserve is expected to perpetuate further US dollar strength.

Table 7: Quarterly' currencies performance

Currencies	30-Jun-18	30-Sep-18	Q3 Change (%)
USD/ZAR	13.7345	14.1372	2.9%
USD/BWP	10.2515	10.4368	1.8%
USD/ZMK	9.9342	12.2048	22.9%
USD/NGN	358.842	361.835	0.8%
USD/GBP	0.7602	0.7661	0.8%
USD/EUR	0.8584	0.8609	0.3%
USD/JPY	110.67	113.516	2.6%
USD/CNY	6.6184	6.8754	3.9%
Dollar Index - DXY	94.58	95.13	0.6%

Source: Oanda

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