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GLOBAL AND REGIONAL ECONOMY

Global Economy – A constant feeling of crisis…

…World Bank and IMF downgrade 2019 growth forecasts…

The World Bank, in its January 2019 Global Economic Prospects Report, revised downwards the projected global growth rate for 2019 from the initial 3.0% to 2.9%. Likewise, the International Monetary Fund "IMF" also cut the global growth forecast for 2019 by 0.2 percentage points "pp" to 3.5% lower than the estimated 3.7% for 2018. Both the World Bank and IMF cited tightening financing conditions, moderating industrial production, escalation in trade tensions and rising debt distress, as the major reasons behind the slowing global growth. Whereas the projected growth in advanced economies "AEs" was maintained at 2.0%, the World Bank cut the revised growth for emerging market and developing economies "EMDEs"- **Table 1** below – by 0.5 pp to 4.2%, same as the 2018 estimate.

Table 1: Trends in Real Gdp

(percent change from previous year)		Estimates		Projections		Percentage point differences from June 2018 projections		
	2017	2018e	2019f	2020f	2021f	2018e	2019f	2020f
World	3.1	3.0	2.9	2.8	2.8	-0.1	-0.1	-0.1
AE	2.3	2.2	2.0	1.6	1.5	0.0	0.0	-0.1
EMDEs	4.3	4.2	4.2	4.5	4.6	-0.3	-0.5	-0.2
SSA	2.6	2.7	3.4	3.6	3.7	-0.4	-0.1	-0.1

Source:World Bank

To confront the gloomy outlook, the World Bank advised EMDEs policymakers "to brace for possible bouts of financial market stress, rebuild macroeconomic policy buffers as appropriate, and tackle adverse debt dynamics, all the while sustaining historically low inflation." Other longer term measures include boosting human capital, removing barriers to investments and promoting trade integration.

Africa- Nigeria issues first triple-tranche Eurobond…

According to the Debt Management Office "DMO", Nigeria raised US$2.86 billion through a Eurobond to fund the 2018 fiscal deficit and other financing needs. The issuance, with an order book over US$9.5 billion, comprised US$1.18bln 7-year series, US$1.0bln 12-year series and US$750mln 30-year series and it was oversubscribed more than 3 times. The respective interest rates were 7.6%, 8.8% and 9.3%. The issuance was the first triple-tranche offering and represented Nigeria's sixth Eurobond issuance since 2011. Meanwhile, most EMDEs have funded important development needs through the bond market, this has led to higher levels of public debt exposing many Low Income Countries "LICs" to interest rate and refinancing risks. In fact, the World Bank estimates that the debt-to-GDP ratio has increased from an average of 30% to 50% over the last four years, thereby, exposing some debt distressed-LICs to the subsequent increase in the risk of capital flow reversals and dislocating currency depreciations. **Table 2** shows the various levels of debt-to-GDP ratios as at end of 2017. Thus, due to the lower buffer levels for LICs, Moody's maintained a negative outlook on SSA sovereigns for 2019, hence the need for improved debt management techniques and revenue collection systems in such economies.

Table 2: Debt to GDP ratios 2017

Category	Country Sample
above 200%	Japan
100%-199.9%	Greece, Italy,Congo,Sudan, Portugal,Singapore, US, Egypt, Mozambique
50%-99.9%	Spain,France, Canada,UK,Brazil,Zimbabwe, Ghana, India, Argentina, Angola,Zambia,Malawi,Kenya, South Africa
20%-49.9%	China, Ivory Coast, Switzerland, Australia, Namibia, Rwanda, Iceland, Panama, Algeria, Denmark
0.1%-19.9%	Hong Kong, Estonia, Solomon Island, Botswana, Russia, Saudi Arabia, DR Congo, UAE, Paraguay

Source:Howmuch.net

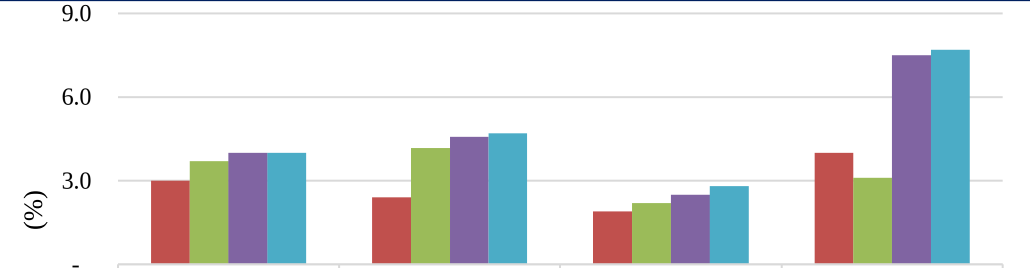
DOMESTIC ECONOMY – At an inflection point…

Treasury and World Bank downgrades 2019 outlook…

… unfavourable weather pattern and macro-fiscal vulnerabilities to slowdown growth…

The African Development Bank "AfDB" in its African Economic Outlook noted that a better-than-expected economic performance in 2018, underpinned by agriculture and a relatively peaceful elections, resulted in the economy growing by 3.5% in 2018. Meanwhile, the Ministry of Finance "MoF" lowered the 2019 economic growth forecast from the 6% underpinning the TSP to 3.1%, (World Bank:3.7%) in its 2019 National Budget Statement. According to MoF, the lower growth forecast is informed by the unfavourable weather pattern and macro-fiscal vulnerabilities from the unsustainable fiscal and current account deficits. Nonetheless, MoF highlighted that the major growth drivers will be mining (+7.5%), distribution, hotels and restaurants (+5%), transport and communication (+4%) and agriculture (+3%). **Fig.1** below outlines the country's growth projections between 2018 and 2021.

Fig. 1: Trends in domestic growth prospects



	World Bank	IMF	BMI	MoF
2018e	3.0	2.4	1.9	4.0
2019f	3.7	4.2	2.2	3.1
2020f	4.0	4.6	2.5	7.5
2021f	4.0	4.7	2.8	7.7

Source:Various

… damned if they do and damned if they don't…

Going forward, the economy remains at an inflection point with the risks tilted towards the downside. Growth prospects will largely depend on the authorities ability to push through the planned macro-economic reforms - which they will be damned if they do and damned if they don't.

Real Sector Developments

Agriculture - Drought risk…

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

The El-Nino phenomenon predicted by the Famine Early Warning Systems Network "Fewsnet" and Meteorological Services Department "MSD" was confirmed during the period under review. This was characterized by dry spells and below-average rainfall from October to early December 2018, which negatively affected crops, livestock and hydro-electricity generation. In fact, the Zimbabwe National Water Authority "ZINWA" highlighted that the average dam levels fell to 70% as at 09 Nov 2018. For the second half of the 2018/19 agriculture season, the MSD expects an improved but erratic rainfall pattern between January to March 2019. Given the anticipated rainfall forecast, pro-active measures such as investment in cloud-seeding, irrigation systems, migration to early maturity varieties and small grains as well as strong investments against the fall army-worm plague, will to a larger extent minimize the drought risk.

Table 3: Tobacco stats

Growers	2017/18	2018/19	Growth(%)
New Growers	32,622	40,772	25.0%
Total Growers	113,530	168,735	48.6%
Acreage			
Irrigated land (ha)	15,259	16,847	10.4%
Dry land (ha)	58,979	62,861	6.6%
Area planted (ha)	74,238	79,708	7.4%

Source:TIMB

Table 4: List of selected commodities

Category	Product(s)
Food	Animal oils & fats (lard, tallow & dripping), baked beans, bottled water, cereals, cheese, coffee creams, cooking oil, crude soya bean oil, wheat flour, ice cream, jams, juice blends, margarine, mayonnaise, peanut butter, potato crisp, pizza base, salad creams and sugar.
Non-food	Body creams, synthetic hair products, shoe polish and soap.
Metal & Packaging	Finished roofing steel sheets and packaging materials.
Agro-related	Fertilisers, agro-chemicals and stock feeds.
Construction	Cement

...need for an industrialization policy...

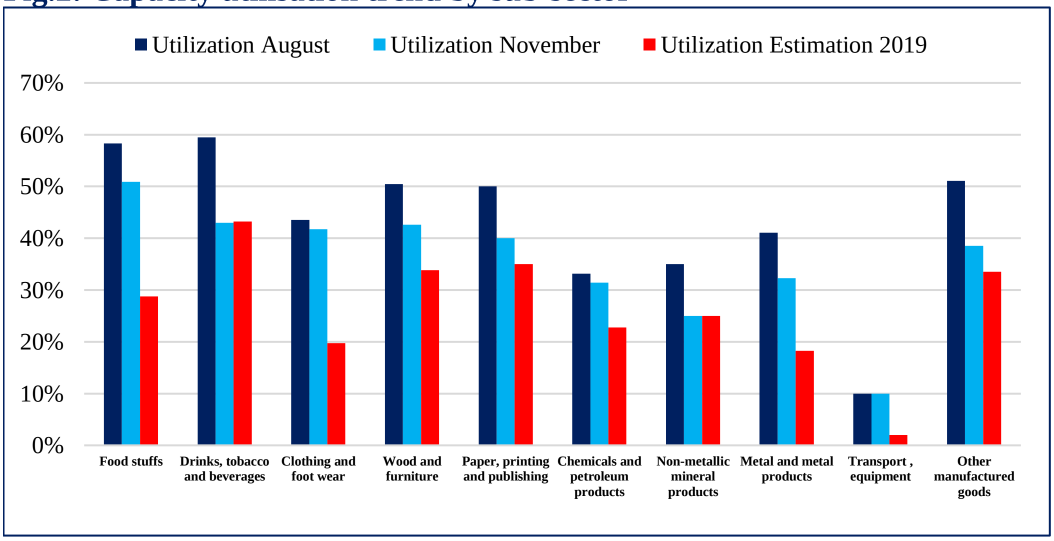
Growth in tobacco farmers and acreage but funding remains low…

According to the Tobacco Industry Marketing Board “TIMB” the number of registered growers grew by 48.6% to 168,735 for the current season – **Table 3** across. Acreage also increased by 7.4% to 79,708 hectares (ha). Dry land remained dominant and largely unchanged at 79% between the 2017/18 season and 2018/19 season, whilst the balance represented irrigated land. Going forward, based on similar drought periods in prior years, low access to funding in which only 11,000 of the 51, 000 growers accessed the $70 million tobacco incentive scheme and rising input costs, national output will most likely be in the 150mln - 200mln kgs range. Therefore, the planned investment in irrigation under the TSP, mechanisation, improvements in land tenure and enhanced marketing will significantly enhance the sustainable development of the sector.

Manufacturing - Gvt amends SI122...

The Ministry of Industry and Commerce temporarily amended Statutory Instrument “SI” 122 of 2017 by removing selected commodities (c.33) from the import ban – **Table 4** across. The decision was driven by the need to “allow economic agents with offshore and free funds to import commodities as well as enable adequate restocking.” Meanwhile, in its 2018 Manufacturing survey, the Confederation of Zimbabwe Industries “CZI” highlighted that capacity utilisation increased from 45.1% in 2017 to 48.2% in 2018. On a successive month basis, however, capacity utilisation fell from 48.2% in Aug 2018 to 42% in Nov 2018. This was due to low production as a result of foreign currency shortages and waning confidence due to lack of clear policy direction on the currency issue. Furthermore, due to the failure to address key constraints i.e. high cost/shortage of raw materials, foreign currency shortages and use of antiquated machinery, the CZI expects capacity utilisation to continue slowing down to reach 36% in 2019. The lowest utilisation level was c.10% recorded in 2008. **Fig.2** below outlines the trends in capacity utilisation per sub-sector for Aug 2018, Nov 2018 and the estimates for 2019.

Fig.2: Capacity utilisation trend by sub-sector



Source:CZI

Going forward, the need for a comprehensive industrialisation policy remains imperative, as it will guide investment decisions and Government interventions in the manufacturing sector. One critical area which the authorities need to effectively pursue is that of import-substitution. Not only will this result in savings of foreign currency, but it will also enhance domestic production, incomes and employment.

...artisanal miners contributed 48% of output in Q4 2018...

Mining - Gold output slumps in Q4…

According to Fidelity Printers and Refiners, gold output for the fourth quarter “Q4 2018” halved to 5.06 tonnes “t” compared to Q3 2018. The decline – attributed to artisanal and small-scale miners “ASM”- largely reflected pricing and payment disparities, shortage of foreign currency for the purchase of critical spare parts and accessories as well as the fuel crisis. As a result, ASM’s contribution to total gold output significantly fell from 75% in Q3 2018 to 48% in Q4 2018 (59%- Q4 2017). In the short term, market-driven policies in addressing challenges faced by miners in all stages of the gold value-chain will enhance output and earnings for the sector.

Energy sector - Fuel price increases…

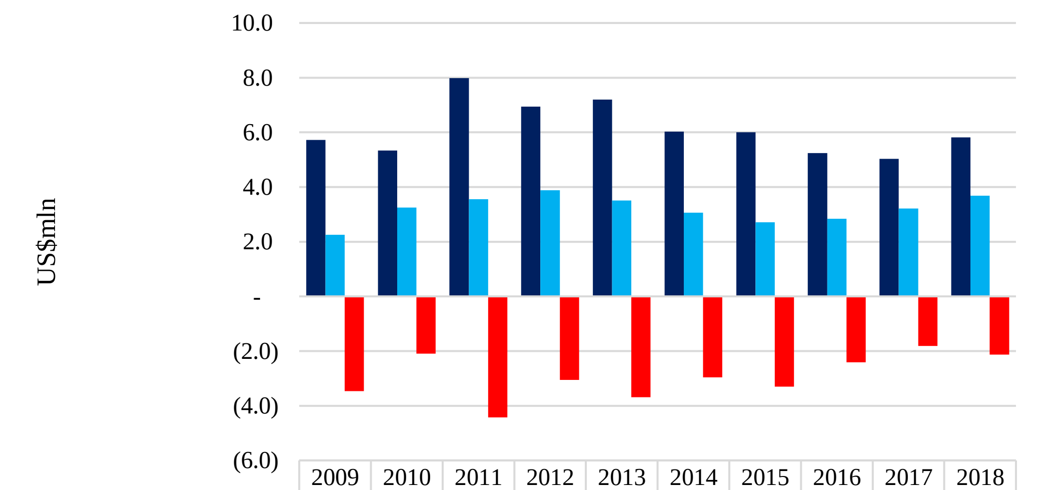
The government announced new retail prices of US$3.31/litre (previously US$1.49) for petrol and US$3.11/litre (previously US$1.34) for diesel in Jan 2019. Also a rebate system was announced for registered businesses in manufacturing, mining, agriculture and transport “...in cognisant of the need to prevent generalised price increases of goods and services following the price adjustment.”

...cumulative trade deficit worsened by 18% in 2018...

External sector - Cumulative trade deficit for 2018 widens…

The country’s cumulative trade deficit for the period Jan-Nov 2018 worsened by 17.7% to $2.13 billion, compared to $1.81 billion in the same period of 2017. A relatively higher growth in imports (+15.7%) against that on exports (+14.5%), led to the trade deficit deterioration. With the exception of electrical energy and aviation spirit, most key imports recorded notable increases, among them ammonium nitrate (+165%) and medicines for retail sale (+245%). In terms of exports, the major drivers were gold (+22%), ginned cotton (+133%), coal (+40%) and nickel (+4%). **Fig.3** below outlines the trend in annual trade deficits since 2009.

Fig. 3:Annual Trend in trade deficit



	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Imports (US$mln)	5.7	5.3	8.0	6.9	7.2	6.0	6.0	5.2	5.0	5.8
Exports (US$mln)	2.2	3.2	3.6	3.9	3.5	3.1	2.7	2.8	3.2	3.7
Trade deficit (US$mln)	(3.5)	(2.1)	(4.4)	(3.1)	(3.7)	(3.0)	(3.3)	(2.4)	(1.8)	(2.1)

Source: ZimStat

In the short term, the need for an import-substitution policy, expenditure-switching measures and market-based currency systems need not be over-emphasized.

...net revenue collections

Table 5:Trend in Revenue-to-GDP

Country	2016	2017	2018
Namibia	32%	34%	32%
Botswana	32%	33%	31%
SA	29%	28%	29%
Malawi	24%	26%	26%
Mozambique	26%	27%	23%
Zambia	18%	18%	23%
Zimbabwe	22%	18%	22%
Kenya	19%	19%	19%
Nigeria	6%	6%	8%
Average	23%	23%	24%

Source:IMF

....Annual inflation soared to 42.1% in Dec 2018...

Fiscal Sector Developments

Improvement in revenue collections…

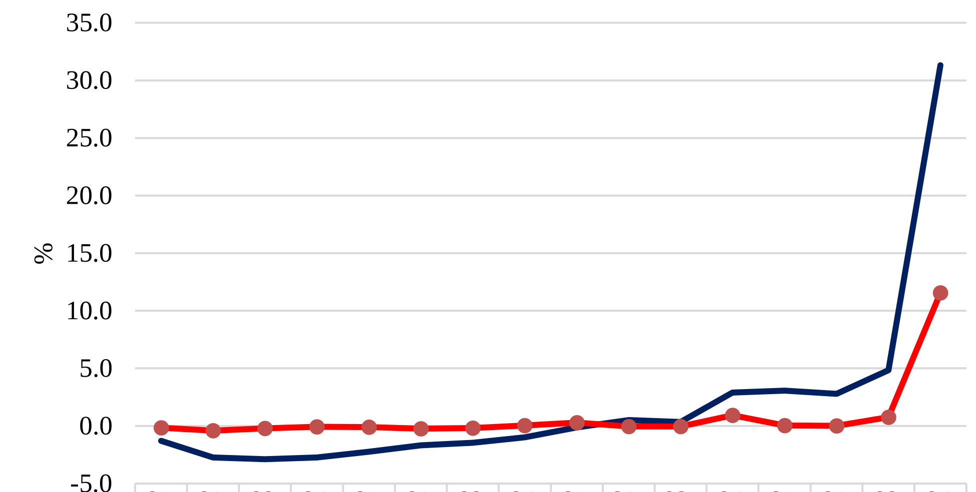
According to the Zimbabwe Revenue Authority "ZIMRA", net revenue collections for Q4 2018 grew by 44% to $1.56 billion, compared to $1.08 billion in the comparative period of 2017. The positive performance was anchored on the revision of the Intermediated Money Transfer Tax "IMT", general price increases and improved revenue generation. Net revenue collections for 2018 also improved by 34.9% to $5.06 billion against $3.75 billion collected in 2017. Meanwhile, a new board was appointed, whilst a new 5-year strategy plan that seeks "to increase voluntary compliance and ease tax compliance through the use of ICT systems" was crafted with the assistance of IMF consultants.

Monetary Sector Developments

Elevated inflationary pressures in Q4…

The year-on-year rate of inflation, as measured by changes in the all items consumer price index, maintained an upward trend rising from 20.8% in Oct 2018 to 42.1% in Dec 2018. Likewise, the quarterly average inflation rate surged from 4.8% in Q3 2018 to 31.3% in Q4 2018. On the other hand, the monthly inflation rate soared from 0.9% in Sept 2018 to 16.4% in Oct 2018 before receding to 9.0% in Dec 2018. Nonetheless, the quarterly average m/m inflation rate rose from 0.8% in Q3 2018 to 11.6% in Q4 2018. The spike in inflation was triggered by a deterioration in macro-economic fundamentals, particularly the exchange rate and inflation expectations during the last quarter of the year. **Fig.4** below illustrates the quarterly inflation trends since 2015.

Fig.4:Quarterly trends in inflation (%)



	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	Q4-18
Y-o-Y	-1.3	-2.7	-2.9	-2.7	-2.2	-1.7	-1.5	-1.0	-0.1	0.5	0.4	2.9	3.1	2.8	4.8	31.3
M-o-M	-0.1	-0.4	-0.2	-0.1	-0.1	-0.2	-0.2	0.1	0.3	-0.1	0.0	0.9	0.0	0.0	0.8	11.6

Source: ZimStat

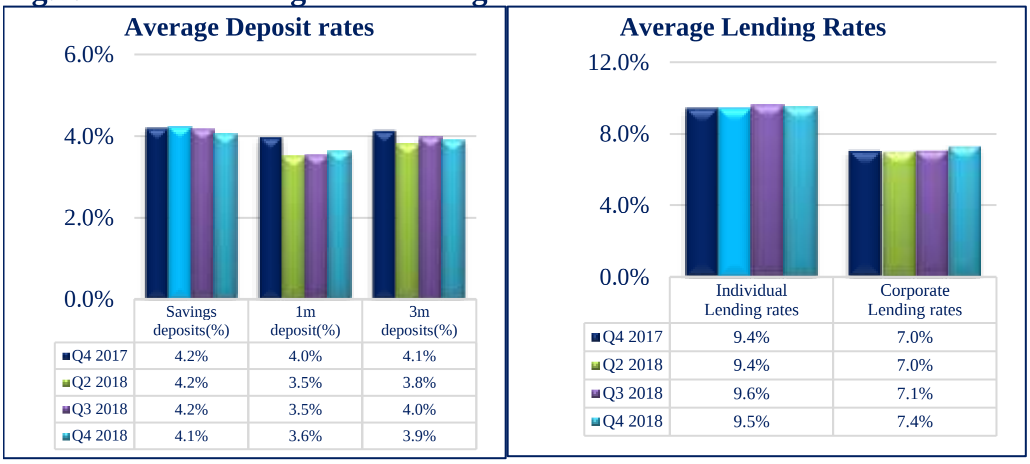
Going forward, inflationary pressures are expected to remain elevated reflecting adverse inflation expectations, foreign currency shortages and general cost-build up.

Average lending rates unchanged…

Average deposit and leding rates remained largely unchanged between Q3 2018 and Q4 2018 - **Fig 5** below - reflecting the generally high levels of local liquidity on the money market.

…average lending rates remained flat…

Fig.5: Trend in savings and lending rates



	Savings deposits(%)	1m deposit(%)	3m deposits(%)
Q4 2017	4.2%	4.0%	4.1%
Q2 2018	4.2%	3.5%	3.8%
Q3 2018	4.2%	3.5%	4.0%
Q4 2018	4.1%	3.6%	3.9%

	Individual Lending rates	Corporate Lending rates
Q4 2017	9.4%	7.0%
Q2 2018	9.4%	7.0%
Q3 2018	9.6%	7.1%
Q4 2018	9.5%	7.4%

Source: RBZ

However, the investment rates remained largely negative in real terms following the surge in the rate of inflation, thereby militating against efforts to raise savings. Going forward, it is therefore critical for the authorities to institute measures that promote the development and deepening of the local money market. There is need to rebuild investor confidence and get economic agents to increase their savings. Such measures may include, among others, issuance of indexed-savings investment instruments and issuance of USD bonds, etc.

FINANCIAL MARKETS REVIEW – Battling market uncertainties…

1. Equities extend gains in Q4 2018…

On the Zimbabwe Stock Exchange "ZSE", the All Share Index advanced by 27% to end the fourth quarter at 146.2 (*12.8% - Q3 2018*) - **Table 6** across. Activity was mainly driven by hedge funds, following the announcement of policy changes that initially destabilised the operating environment, on the back of continued lack of alternative asset classes. **Table 7** below illustrates the Top 5 movers and shakers between Q3 and Q4 of 2018.

Table 6: ZSE Performance

Domestic	30-Sep-18	31-Dec-18	Q4 Change(%)
All Share Index	115.1	146.2	27.0%
Top-Ten Index	117.6	145.0	23.3%
Market Cap (US$bln)	12.27	19.42	58.4%
Turnover (US$m)	231.29	372.23	60.9%

Source: ZSE

…the All-Share Index advanced by 27% in Q4 2018…

Table 7: ZSE Movers and Shakers

Movers				Shakers			
Counter	30-Sep-18	31-Dec-18	Q4 Change	Counter	30-Sep-18	31-Dec-18	Q4 Change
Turnall	2.07	5.02	142.5%	African Sun	8.10	4.80	-40.7%
RTG	1.10	2.39	117.3%	Fidelity	10.30	8.75	-15.0%
Medtech	0.01	0.02	100.0%	Powerspeed	14.99	14.00	-6.6%
Proplastics	10.00	19.50	95.0%	First Capital	6.24	5.90	-5.4%
NMB	12.75	24.00	88.2%				

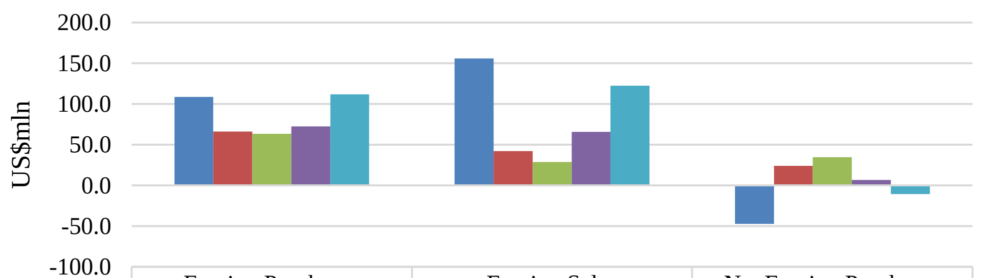
Source: ZSE

Meanwhile, the ZSE market capitalisation increased by 58.4% ($7.2 billion) to $19.4 billion as at the end of Q4 2018 lifted by the separate listing of Cassava Smarttech, an offspin of Econet. All the Top-Ten counters recorded gains in market capitalisation ranging from 2% to 67%.

The market turnover also improved by 61% from $231.3 million in Q3 2018 to $372.2 million in Q4 2018. In terms of participation, offshore investors were net-sellers, whilst local investors maintained their dominance on the buy-side - **Fig.7** below.

…. turnover advanced by 61% to $372.2 mln in Q4 2018…

Fig.7: Investor Participation Trend

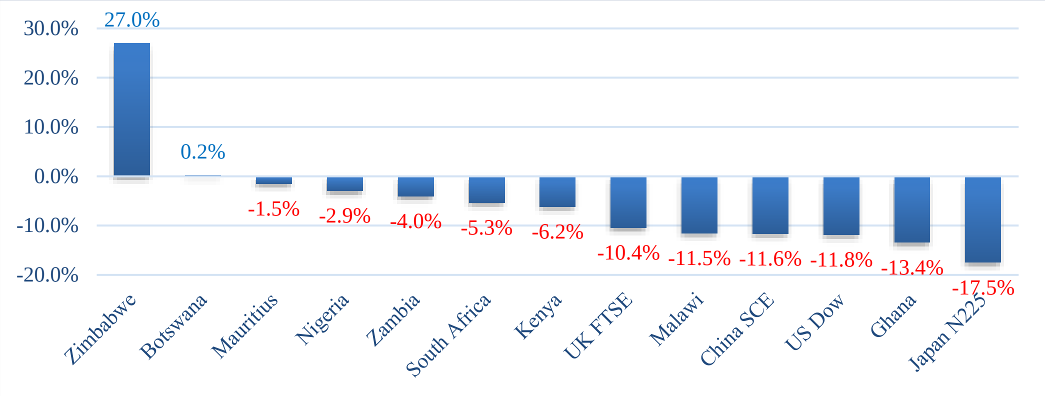


	Foreign Purchases	Foreign Sales	Net Foreign Purchases
Q4 2017	108.6	155.8	-47.3
Q1 2018	66.1	42.2	24.0
Q2 2018	63.3	28.6	34.7
Q3 2018	72.5	65.7	6.8
Q4 2018	111.8	122.6	-10.7

Source: ZSE

Meanwhile, with the exception of Zimbabwe and Botswana, all regional and global stock markets recorded losses in Q4 2018, dragged by uncertainities emanating from the US-China trade wars, US government shutdown, Brexit and the rate hike by the US Federal Reserve. The ZSE, once again, registered the largest return of 27%, whilst the worst performer was Japan (-18%) – see **Fig. 8** on the next page.

Fig.8: Q4 2018 Equities performance



Source: Various

Going forward, continued uncertainty over currency reforms, rising inflation and the excess local liquidity will provide upside potential for the ZSE.

2. Commodities Markets: Oil under pressure…

With the exception of gold, soybeans and sugar, most commodities recorded price declines in Q4 2018. In fact, oil prices fell by 35% to $53.8/b on excess supply concerns from key producers as well as waning demand. Weak economic data from China, amidst the ongoing trade war, saw nickel and copper prices registering losses of 15.1% and 3.5%, respectively. On the upside, gold prices advanced by 7.7% to $1,279/oz supported by safe-haven buying – **Table 8** across. Going forward, the ongoing trade tensions is expected to restrain base metals and agro-commodity markets. Precious metals, especially gold, will most likely find support from the anticipated slowdown in the global economy and political risks.

Table 8: Quarterly commodities performance

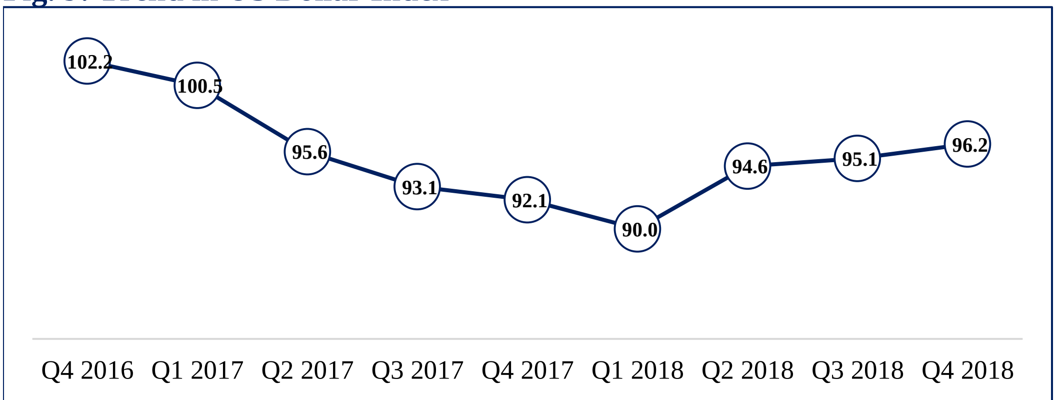
Commodities	30-Sep-18	31-Dec-18	Q4 Change(%)
Metals			
Gold - US$/oz	1,187.25	1,279.00	7.7%
Platinum - US$/oz	815.00	800.00	-1.8%
Copper - US$/t	6,180.00	5,965.00	-3.5%
Nickel - US$/t	12,480.00	10,590.00	-15.1%
Oil - US$/b	82.72	53.80	-35.0%
Agricultural			
Wheat - US$/t	187.58	184.82	-1.5%
Soybeans - US$/t	308.83	331.61	7.4%
Sugar - US$/pound	10.42	12.03	15.5%
Cotton - US$/pound	76.76	72.20	-5.9%

Source: Various

3. Currencies Markets: US dollar strengthens…

The US dollar remained firm, supported by the US Federal Reserve's fourth interest rate hike of 25 basis points to the 2.25-2.5% range. As a result, the dollar index advanced by 1.1% to 96.17 in Q4 2018 – **Fig 9** below.

Fig. 9: Trend in US Dollar Index



Source:Various

Elsewhere, most emerging market currencies fell out of favour due to risk-off sentiment by global investors in line with a slowdown in emerging market growth prospects, including China, and rising debt levels. For instance, the South African rand weakened by 1.7% to ZAR 14.4/US$1- – **Table 9** across - as domestic growth outlook remained weak. In fact, the South African Reserve Bank downgraded the country's growth prospects for 2018 from an intial projection of 0.7% to 0.6% during the period under review. In the short term, tightening monetary financing conditions, Brexit-related risks, a slowdown in China's growth prospects will most likely sustain US dollar strength.

Table 9: Quarterly' currencies performance

Currencies	30-Sep-18	31-Dec-18	Q4 Change (%)
USD/ZAR	14.1372	14.3815	1.7%
USD/BWP	10.4368	10.5155	0.8%
USD/ZMK	12.2048	11.8973	-2.5%
USD/NGN	361.835	363.038	0.3%
USD/GBP	0.7661	0.7851	2.5%
USD/EUR	0.8609	0.8737	1.5%
USD/JPY	113.516	110.004	-3.1%
USD/CNY	6.8754	6.8764	0.0%
Dollar Index - DXY	95.13	96.17	1.1%

Source: Oanda

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