1. OVERVIEW

The Zimbabwe economy remained volatile in November 2018, with the key challenges experienced in October remaining binding. Inflation, which continued to rise in October worsened, gaining about 10.2 percentage points to 31.01 percent, which is the highest among some select Southern African Development Community (SADC) countries. The price of gold and platinum declined at the international level, which negatively affected revenue inflows, given that Zimbabwe is mineral dependent for export revenue. The decline of the wheat price, however, was a welcome development, given that Zimbabwe is a net wheat importer due to low levels of local wheat production.

In the real sector, there were positive developments from the agriculture as well as manufacturing subsectors. There was an increase of about 66 percent in the number of farmers that registered to grow tobacco in the 2018/19 season. Given that tobacco is one of the main export products, it is anticipated that tobacco output would increase, helping to increase foreign currency earnings. The competitiveness of the clothing manufacturers is going to be enhanced in 2019, following measures to remove duty on polyester based fabrics, a critical raw material in the industry. The removal of duty addresses an anomaly where polyester fabric, which is not produced in the country was subject to punitive duty. The duty was not protecting any producer but penalising polyester fabric importers and all manufacturing firms that used polyester as an input.

The gold sector continued to be dominated by deliveries from the small-scale miners as they contributed 66.4 percent of the 31.69 tonnes produced for the first 11 months of the year. The gold sector is likely to reach the revised annual gold target of 33 tonnes in 2018. Despite the impressive platinum production for the first half of the year, of about 7.81 tonnes, the country is spearheading beneficiation and value addition of the platinum group metals up to the base metal and precious metal refinery to gain more value from the finite mineral resources.
Financial sector developments show that activity on the Zimbabwe Stock Exchange was subdued in November 2018. All the main indices; the Industrial, Mining, the All Share and Top 10, declined compared to October 2018. The Industrial index lost 11.15 percentage points, while the Mining, All Share and Top 10 indices lost 8.78; 3.42 and 2.50 points respectively. Turnover value and volume also declined by 26.83 percent and 51.29 percent respectively from their levels in October 2018. The decline was largely a result of market correction following a period of speculative driven activities in October 2018.

On the fiscal side, total cumulative government revenue net of retention in October 2018 increased by 33 percent compared to October 2017, to USD 4.18 billion. This surpassed the target of USD 3.68 billion that had been set for ZIMRA. The growth was mainly spurred by taxes on incomes/profits and value added tax (VAT), which shows that there have indeed been some increased economic activity in 2018 compared to 2017. On the other hand, total expenditure for the ten months to October 2018 increased by 32.8 percent to USD 7.07 billion, surpassing a target of USD 4.5 billion. This resulted in a cumulative budget deficit of USD2.89 billion in October 2018 against a target of USD 801.21 million.

In the external sector, imports over the period February to October 2018 grew by about 27 percent compared to the same period in 2017 to USD5.2 billion while exports grew by 23 percent to about USD3.2 billion over the same period. This implies that Zimbabwe experienced a balance of trade deficit of about USD2 billion, which worsened by about 34 percent compared to the same period in 2017. The main single import item continues to be fuel, which constitutes 23 percent of total imports. High and unsustainable domestic and external debt of USD9.6 billion and USD7.7 billion respectively, translating to USD17.3 billion in total debt as at end of September 2018 is still a challenge. However, the Government of Zimbabwe has committed itself to curb the ballooning of the debt through adherence to fiscal rules. Zimbabwe will continue to be classified as in debt distress as long as external arrears exist hence the need to expedite the clearance of those arrears to pave way for having access to concessionary financing to enable the industry to retool.

On human capital development and reducing the gender gap, Zimbabwe is performing fairly well compared to its SADC counterparts although the human capital development still requires massive improvement. Zimbabwe is ranked 114 out of 157 countries by the 2018 Human Capital Index (HCI). Zimbabwe’s score of 0.44 means the earning potential of its youngest generation over their lifetime is only 44 percent of what it could be, if they had complete education and good health. A comparison between Zimbabwe and other selected SADC countries shows that Zimbabwe is trailing behind Seychelles and Mauritius which had index of 0.68 and 0.63 respectively. However, Zimbabwe’s human capital is better
equipped compared to even upper middle-income countries like Botswana (0.42), Namibia (0.43) and South Africa (0.41). The World Economic Forum’s Global Gender Report 2018 ranks Zimbabwe 47 out of 144 countries, being among the top 10 countries to reduce the gender gap in Sub-Saharan Africa.

2. REGIONAL ECONOMIC DEVELOPMENTS

2.1 Regional inflation Developments

On regional inflation, the trend that was witnessed in October where Zimbabwe had the highest inflation among a select countries continued into November (Table 1). The inflation rate for Zimbabwe gained about 10.2 percentage points to stand at 31.01 percent in November 2018. This was followed by Angola at 18.36 percent, with Malawi and Zambia reaching 10.1 percent and 7.8 percent respectively. Mauritius and Tanzania on the other hand continued to experience low inflation rates of 2.8 percent and 3.0 percent respectively.

Table 1: Regional inflation Trend, June - November 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Percentage Points</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zimbabwe</td>
<td>2.91</td>
<td>4.29</td>
<td>4.83</td>
<td>5.39</td>
<td>20.85</td>
<td>31.01</td>
<td>10.2</td>
</tr>
<tr>
<td>Angola</td>
<td>19.52</td>
<td>19.1</td>
<td>18.6</td>
<td>21.6</td>
<td>18.04</td>
<td>18.36</td>
<td>0.3</td>
</tr>
<tr>
<td>Malawi</td>
<td>5.6</td>
<td>9.0</td>
<td>9.3</td>
<td>9.5</td>
<td>9.7</td>
<td>10.1</td>
<td>0.4</td>
</tr>
<tr>
<td>Zambia</td>
<td>7.4</td>
<td>7.8</td>
<td>8.1</td>
<td>7.9</td>
<td>8.3</td>
<td>7.8</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Namibia</td>
<td>4.0</td>
<td>4.5</td>
<td>4.4</td>
<td>4.8</td>
<td>5.1</td>
<td>5.6</td>
<td>0.5</td>
</tr>
<tr>
<td>Kenya</td>
<td>4.28</td>
<td>4.35</td>
<td>4.04</td>
<td>5.7</td>
<td>5.53</td>
<td>5.58</td>
<td>0.0</td>
</tr>
<tr>
<td>South Africa</td>
<td>4.6</td>
<td>5.1</td>
<td>4.9</td>
<td>4.9</td>
<td>5.1</td>
<td>5.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Mozambique</td>
<td>4.4</td>
<td>4.73</td>
<td>5.02</td>
<td>4.89</td>
<td>4.75</td>
<td>4.27</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Botswana</td>
<td>3.1</td>
<td>3.1</td>
<td>3.0</td>
<td>2.9</td>
<td>3.6</td>
<td>3.8</td>
<td>0.2</td>
</tr>
<tr>
<td>Seychelles</td>
<td>3.01</td>
<td>3.13</td>
<td>2.78</td>
<td>3.27</td>
<td>3.43</td>
<td>3.69</td>
<td>0.3</td>
</tr>
<tr>
<td>Tanzania</td>
<td>3.4</td>
<td>3.3</td>
<td>3.3</td>
<td>3.4</td>
<td>3.2</td>
<td>3.0</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1.0</td>
<td>1.7</td>
<td>0.9</td>
<td>1.9</td>
<td>2.8</td>
<td>2.8</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Trading Economics

For the purposes of macroeconomic convergence in the SADC region, the SADC Macroeconomic Convergence Framework requires that SADC countries target an inflation rate of between 3 percent and 7 percent by end of 2018. This implies that Zimbabwe and Angola are far off the mark.

2.2 Regional integration and trade

SADC member states are in the process of developing a Protocol on Industry, a legal instrument geared towards supporting industrialization. This protocol will promote both national and regional industrialization. It is envisaged to ensure
pursuit of unified goals on regional industrialization and facilitate cohesion to Member States’ industrialization policies and strategies.

The protocol will give legal effect to the 2015-2063 SADC Industrialization Strategy and Roadmap. The SADC Secretariat is in the process of assisting member states to improve their industrial competitiveness through the identification of capacity gaps in implementing the industrialization policy, and developing regional programmes to improve their competitiveness. This development presents an opportunity for Zimbabwe whose regional trade performance is characterized by negative trade balance; and dwindling export basket that is dominated by low value primary commodities. Further, the manufacturing sector is registering subdued performance and struggling with high cost of doing business, among other challenges.

Zimbabwe was ranked lowly (128 out of 140 countries) on 2018 World Economic Forum Global Competitiveness Report, down from the 124th position recorded in the 2017 Report. Zimbabwe performed poorly on all the pillars of competitiveness assessed including factors such as: institutions; infrastructure; ICT adoption; macro-economic stability; health; skills; product market; labour market; financial system; market size; business dynamism; and innovation capabilities. It’s expected that economic reform programmes such as those addressing ease of doing business and other reforms enunciated in the Transitional Stabilisation Programme of 2018-2020 will go a long way in creating a conducive environment for manufacturing sector and the country’s potential to exploit regional trade opportunities.

2.3 Regional Stock market developments

In the month of November 2018, the Zimbabwe Stock Exchange indices were among the worst performing indices in select regional stock exchanges. The poor performance of the stock exchange was as a result of the market moving to correct itself following a period of speculative driven activities as investors sought a safe haven for their funds. On the other hand the Lusaka All Share Index and the Botswana Stock Exchange DFS index recorded positive returns of 1.02 percent and 0.06 percent respectively (Table 2).
### Table 2: Summary of selected regional stock market performance November 2018

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
<th>Open</th>
<th>Close</th>
<th>Percentage Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>JSE All Share Index</td>
<td>52,388.87</td>
<td>50,663.94</td>
<td>(3.29 percent)</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>All Share Index</td>
<td>163.82</td>
<td>160.40</td>
<td>(2.09 percent)</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Industrial Index</td>
<td>549.81</td>
<td>538.66</td>
<td>(2.03 percent)</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Top 10 Index</td>
<td>167.48</td>
<td>164.98</td>
<td>(1.49 percent)</td>
</tr>
<tr>
<td>Kenya</td>
<td>NSE 20 Share Index</td>
<td>2,810.32</td>
<td>2,797.44</td>
<td>(0.46 percent)</td>
</tr>
<tr>
<td>Mauritius</td>
<td>SemDex</td>
<td>2,239.57</td>
<td>2,233.99</td>
<td>(0.25 percent)</td>
</tr>
<tr>
<td>Botswana</td>
<td>Botswana SE DFS (DFSIBT)</td>
<td>1,069.23</td>
<td>1,069.87</td>
<td>0.06 percent</td>
</tr>
<tr>
<td>Zambia</td>
<td>Lusaka All Share Index (LASI)</td>
<td>5,225.12</td>
<td>5,278.33</td>
<td>1.02 percent</td>
</tr>
</tbody>
</table>

*Source: Investing.com, selected stock exchange websites*

### 3. COMMODITIES PRICES IMPACTING ZIMBABWE

**Precious metals**

Platinum prices for October 2018 declined by 9.9 percent to USD829.87 per troy ounce from USD921.00 per troy ounce in the same period in 2017 (Figure 1). Persistent excess supply over demand and the strengthening of US dollar continue to weigh down platinum prices. However, on a month on month basis, the price increased by 3.1 percent from USD804.79 in September 2018.

**Figure 1: Gold and Platinum prices in October 2018**

![Gold and Platinum prices in October 2018](image)

*Source: World Bank, November 2018*

Gold price declined by 5 percent to USD1215.39 per troy ounce from USD1279.51 in October 2018, on the back of declining demand for gold and strengthening US dollar. According to the World Gold Council, the demand for gold has declined from 1079.9 tonnes in the first quarter of 2017 to about 964.3
tonnes in the third quarter of 2018, mainly underpinned by the decline in gold demand for investment purposes. However, gold price firmed on a month on month basis by 1.4 percent in October 2018 from USD1198.39 in September 2018 owing partly to concerns over the US-China trade disputes, US-Saudi Arabia tensions, and Italy’s resistance over changing its budget. These concerns reignited the safe haven lustre of gold in the month of October 2018.

**Crude oil**

Average crude oil price increased by 39.7 percent in October 2018 to USD76.73 per barrel from USD54.92 in October 2017 (Figure 2). On a month on month basis, the crude oil price also increased by 1.8 percent from USD75.36 in September 2018. The upward trend in crude oil price was underpinned by constricted crude oil supplies due to the crisis in Venezuela, Organization of the Petroleum Exporting Countries (OPEC) oil production caps, and expectations of reduced oil exports from Iran following the impending re-imposition of sanctions by the United States of America. This rising trend in crude oil prices does not bode well for Zimbabwe which is an importer of petroleum products.

**Figure 2: Average crude oil price in October 2018**

![Graph showing average crude oil price in USD/barrel from 2013 to 2018](source: World Bank, November 2018)

**Wheat and maize**

In October 2018 the average wheat price on the global market increased by 19.8 percent to USD211.29 per metric tonne up from USD176.32 in October 2017. The price of wheat also increased on a month on month basis by 2 percent from USD207.21 in October 2018 (Figure 3). Lower stocks of wheat, coupled with
poor weather conditions delaying wheat planting in Europe, Australia and other parts of the world, have resulted in the increase in wheat price.

**Figure 3: Maize and wheat prices April 2013 to October 2018**

![Graph showing maize and wheat prices from 2013 to 2018](image)

Source: World Bank, October 2018

The maize price increased by 7.8 percent year-on-year to USD160.26 per metric tonne in October 2018 from USD148.62 in October 2017, while on a month-on-month basis the price also increased by 3.5 percent from USD154.80 in September 2018 (Figure 3). The increase in maize price is partly due to the expected increase in the demand for feed, declining maize stocks in Argentina, Brazil, China and USA, and harvest losses due to heavy rains in the Midwest of USA.

4. REAL SECTOR DEVELOPMENTS

4.1 Agriculture

**Tobacco**

Farmers who registered to grow tobacco in the 2018/19 agricultural season totalled 166,069 as at 29 November 2018. This was a 66 percent increase compared to the same time last year, reflecting an ever growing interest in tobacco farming among farmers. About 55 percent of the registered farmers were communal farmers, followed by A1 farmers with a 33 percent share (Figure 4). Tobacco exports reached USD 785.2 million as at 29 November 2018, selling at an average price of USD 4.82/kg. This represented a 9.1 percent
decline in export revenue as compared to USD 863.7 for the same period in 2017.

**Figure 4: Tobacco farming registration by farmer category as at 29 November 2018**

Source: Tobacco Industry and Marketing Board

**Poultry**

The sector recorded an increase in broiler production in the third quarter of 2018 following growth realised in the first half of the year (Figure 5). Total poultry meat production in the third quarter of 2018 reached a monthly average of about 12,278 mt compared to 7,546 mt recorded over the same period in 2017. Total poultry meat production from January to September 2018 reached 105,402 mt representing a 38 percent increase of what was produced over the same period in 2017. This was attributed to increased spending power both in rural and urban areas. The bulk of the meat was produced by the small scale farmers.

**Figure 5: Estimated monthly broiler production (metric tonnes)**

Source: Livestock & Meat Advisory Council Market Update November 2018

HIGHLIGHTS

Farmers who registered to grow tobacco in the 2018/19 agricultural season totalled 166,069 as at 29 November 2018. Total poultry meat production in the third quarter of 2018 reached a monthly average of about 12,278 mt compared to 7,546 mt recorded over the same period in 2017.
The production of broiler day old chicks increased over the nine month period to September from 47.8 million in 2013 to 66.8 million in 2018 (Figure 6). Slowed growth was realised in 2017 as the country experienced Avian Influenza outbreak during the first half of that year.

**Figure 6: Broiler day old chicks Broiler Day-old Chicks Produced January to September, 2013 to 2018 (Millions)**

Source: Livestock & Meat Advisory Council Market Update November 2018

Poultry production is, however, expected to decline in 2019 owing to acute foreign currency shortages. This has had the impact of weakening the value of the bond and bank balances thereby pushing cost of production and product prices up as well as reducing the purchasing power of consumers. However, consolidating efforts towards creating a stable macroeconomic environment could result in increased growth in the agriculture sector.

**Beef**

Between January and September 2018, beef slaughter reached 208,057 head, representing a 6 percent increase over the same period in 2017. About 34.5 percent of the slaughters were done in Mashonaland West and Masvingo provinces. According to Livestock and Meats Advisory Council, a high level of instability was experienced in monthly slaughters between January and September 2018. This was mainly driven by erratic supply of slaughter stock from small holder sector that accounts for the majority of cattle producers. This calls for the need to strengthen the existing efforts in building of the national head and providing affordable alternatives to draught power. Cattle in the small holder sector are used as draught power, they are a form of savings and insurance.
A general decline in the quality of meat being slaughtered was registered between 2014 and 2018. Super grade has generally been on the decline with economy grade compensating for this decline. Commercial grade however remained the same. Super grade accounted for 19 percent of slaughtered stock for the period January to September 2018, a change of 2 percent over the corresponding period in 2017. This calls for increased extension support to farmers to embrace better agronomic practices on cattle breeding if they are to reap more from this business.

4.2 Mining

Gold sector

Small scale miners continued to dominate gold deliveries in 2018. By end November 2018, they had delivered to Fidelity Printers and Refineries, Zimbabwe’s gold buying centre, about 21.04 tonnes (about two thirds of the total deliveries) compared to 10.64 tonnes for large scale miners (Figure 7). The gold sector is likely to reach the revised gold target of 33 tonnes in 2018.

Figure 7: Gold Deliveries, January 2015 – November 2018

Source: Fidelity Printers and Refineries

Transitional Stabilisation Programme (Oct 2018 – December 2020) projects gold output to increase to 36 tonnes by 2022 and 48 tonnes by 2025. The 2019 gold projection is 35.31 tonnes, a 7 percent increase from the 2018 target figure. The gold production is expected to increase in the short to medium term due to
the reforms of the gold mines such as Jena, Sabi, Elvington, Golden Kopje and Gaths Mines as announced in the 2019 National Budget Statement. In 2019, a Mining Loan Fund will be availed to small scale miners through Fidelity Printers and Refineries to assist in rehabilitating the environment in line with the global demands for environmental management.

**Platinum sector**

Platinum production for the first half of the year was about 7.81 tonnes registering a decline of 0.86 percent compared to the same period in 2017 (Figure 8). Zimplats, has shelved its USD131 million refurbishment of Selous Base Metals Refinery to pave way for a national refinery which will process up to base metal and precious metal by December 2021 and December 2024, respectively. To support this activity, the Government is offering support through fiscal incentives to ensure that the refinery is set up within the proposed time frame. The Government has once again postponed the tax on unbeneficiated platinum with effect from 1 January 2019 and pushed it further to January 2022 (see Table 3).

**Figure 8: Platinum production, January – June 2017 and 2018**

![Platinum production, January – June 2017 and 2018](image)

*Source: Chamber of Mines, 2018*

**Table 3: Proposed Taxes on unbeneficiated Platinum Group Metals (PGMs)**

<table>
<thead>
<tr>
<th>Level of Beneficiation</th>
<th>Export Tax (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>PGM Concentrate</td>
<td>5</td>
</tr>
<tr>
<td>White Matte</td>
<td>2.5</td>
</tr>
<tr>
<td>PGM and Base Metal</td>
<td>1</td>
</tr>
<tr>
<td>Precious Metal Refinery</td>
<td>0</td>
</tr>
</tbody>
</table>
4.3 Manufacturing

Among the measures to promote the manufacturing sector under the 2019 National Budget Statement, is a desire to address the unintended consequences of the protectionist measures that government had put in place. Through various regulations, which were consolidated by Statutory Instrument 122 of 2017, government had intended to protect the local industry by preventing imports. However, some of the products that are not locally manufactured and also serve as raw materials in the manufacturing process were also included in the list of protected products. This is particularly true with respect to the fabrics industry, which saw many clothing manufacturers failing to be competitive after buying raw materials at high prices.

There are generally three main classes of fabrics. Natural fibres are naturally produced by plants, animals or geological processes, and these include cotton and silk. In Zimbabwe it is mainly cotton that is grown in many parts of the country which has seen the majority of fabrics being cotton based or having a high percentage of cotton in their make-up. The second category is man-made textile materials, which include polyesters, nyons and viscoses. Currently, all such fabrics are not made in Zimbabwe and have to be imported. The third category is a mixture of natural and man-made fabrics, with the mixture ratio differing on whether the main aim is to improve comfort, flexibility and strength. The Association of Fabric Retailers and Allied Trade (AFRAT) estimates that polyester constitutes about 65 percent of the composition of the fabric mixed with cotton and other yarns and that the use of polyester based fabric is about 48 percent of total fabric requirements in Zimbabwe.

Polyester based fabrics are not primarily made in Zimbabwe and this is where most of the variety of clothing materials used for school uniforms and daily wear is produced. However, duty for this important raw material had been increased from 10 percent to as high as 40 percent + $2.50 per kg under SI 122 and associated regulations. Although Statutory Instrument 237A of 2018 was officially gazetted in October 2018, the list of products that could be imported duty free under these new regulations did not include polyester fabrics. Thus, the announcement of the 2019 National Budget measures, which recognised the need to include fabric that is not locally produced under the Clothing Manufacturers Rebate, was a welcome move in the clothing industry.
Statistics from ZIMSTAT show that between February and October 2018, polyester, canvas and nylon based fabric, including woven fabrics of synthetic filament yarn, worth about USD 4.3 million was imported into the country. This represented an increase of more than 200 percent compared to the imported volumes recorded in 2016 before such measures were introduced and an increase of more than 131 percent compared to values imported in the same period in 2017. This generally shows that the fabrics are critical raw materials whose importation does not necessarily fall if protectionist measures are introduced. What this also implies is that the additional costs would be passed on to the downstream firms and consumers, which also affects competitiveness of fabric retailers as well as clothing manufacturers, especially in the face of cheap imports.

The removal of duty through the rebate generally implies that the competitiveness of the whole value chain is expected to improve significantly. According to AFRAT, woven fabrics were subjected to duty of up to 40 percent, which generally shows that the fabric retailers now have a 40 percent adjustment window to become competitive. This also cascades down the whole value chain, which would also imply that the general public would expect to see a change in the manner in which prices for uniforms and other clothing materials have been going up.

### 4.4 Tourism

The tourism sector was allocated USD 38.4 million in the 2019 National Budget. A commendable move was an allocation of $22 million (or 57.3 percent) towards capital transfers, which was shared as follows: 65.9 percent to Environmental Restoration Fund; 9.1 percent to Mosi OA Tunya Development Company; 22.7 percent to Zimbabwe Parks and Wild Life Management; and the balance to Zimbabwe Tourism Authority.

However, only 4.5 percent of what was allocated to the tourism sector is earmarked towards employment costs. Tourism promotion also received only USD 4.8 million (12.5 percent of total tourism share) for marketing and branding Zimbabwe as an attractive destination. The low budgetary allocation is likely to see the country failing to meet its target of increasing tourist arrivals by 5 percent per annum. Zimbabwe has huge opportunities on this front given the tourist attractions, the highly learned human resource stock and the good
climate among other factors. Thus more budgetary allocation to this sector is imperative if tourism is to meaningfully drive the economic growth of the country.

5. FISCAL POLICY

Revenue performance

Total cumulative government revenue net of retention stood at USD 4.18 billion against a target of USD 3.68 billion for the 10 month period, whilst total revenue including ZIMRA retention amounted to USD 4.21 billion. A year on year analysis shows that government revenues net of retention grew by 33 percent from USD 3.15 billion collected in a comparable period in 2017. Taxes on incomes/profits and Value Added Tax (VAT) were the major drivers and contributors to the growth in government revenue, growing by 37.6 percent and 28.9 percent, and accounting for 35.9 percent and 27.9 percent of total revenue respectively (Figure 9). In order to augment declining revenues and reduce the arbitrage opportunities in the fuel market, the government raised the excise duty on fuel (7 cents per litre on diesel and paraffin and 6.5 cents on petrol) with effect from the 1st of December 2018.

Figure 9: Trend in Cumulative Government revenues as at October 2018

Source: Ministry of Finance and Economic Development

Total cumulative government revenue net of retention stood at USD 4.18 billion against a target of USD 3.68 billion for the 10 month period, whilst total revenue including ZIMRA retention amounted to USD 4.21 billion.
Expenditure Performance

Total expenditure for the ten months to October 2018 stood at USD 7.07 billion against a target of USD 4.5 billion. On a year on year basis, expenditure grew by 32.8 percent from USD 5.32 billion recorded a comparable period in 2017. Growth in total expenditure was mainly driven by the growth in capital expenditure and net lending, and interest payments which grew by 108.2 percent and 38.6 percent respectively, while expenditure on operational costs declined. Thus, expenditure on employment cost and capital expenditure and net lending continue to dominate the structure of government payments, accounting for 45 percent and 42 percent of total expenditure respectively (Figure 10).

Figure 10: Trend in Cumulative Government Expenditure as at October 2018

While government revenue continued to grow in the ten months to October 2018, it was been growing at slower pace compared to the growth in expenditure, resulting in excess expenditure against revenue. This resulted in a cumulative budget deficit of USD 2.89 billion in October 2018 against a target of USD 801.21 million.

6. FINANCIAL AND MONETARY SECTOR

6.1 Stock Market Development

The Industrial, Mining, All Share and Top 10 indices closed low in the month of November 2018 losing 11.15 (-2.03 percent), 8.78(-4.04 percent), 3.42 (-2.09 percent) and 2.50(-1.49 percent) points respectively. Turnover value and
volume also declined by 26.83 percent and 51.29 percent respectively from their levels in October 2018.

On a year on year basis, the industrial and mining indices closed on a high note in the month of November 2018 compared to the prior period in 2017, gaining 161.97 (43 percent) and 81.70 (64.4 percent) points respectively (Figure 11). The strong performance of the indices in 2018 was as a result of speculative activities driven by uncertainty around government policy and negative outlook with regards to the performance of the economy.

**Figure 11: Trend in the ZSE Indices November 2017 to November 2018**

The value and volume of shares traded on the Zimbabwe stock exchange in the month of November 2018 declined by 43.1 percent and 21.7 percent respectively from their levels in November 2017. Foreign investor participation on local bourse declined, both in buying and selling. The decline in foreign investor participation can be attributed to fears over ability to repatriate proceeds of sale. Market capitalisation, which stood at USD 10.78 billion at the end of November 2017 increased by 60.7 percent and closed the month of November 2018 at USD 17.32 billion, while on a month on month basis, capitalisation declined by 3.6 percent (Table 4).
Table 4: Summary of Stock market performance November 2017 and 2018

<table>
<thead>
<tr>
<th>Date</th>
<th>Nov-17</th>
<th>Oct-18</th>
<th>Nov-18</th>
<th>Y.o.Y Change</th>
<th>M.o.M Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Value ( USD million)</td>
<td>207.5</td>
<td>161.3</td>
<td>118.0</td>
<td>(43.1 percent)</td>
<td>(26.8 percent0</td>
</tr>
<tr>
<td>Turnover Volume (million)</td>
<td>196.5</td>
<td>315.9</td>
<td>153.9</td>
<td>(21.7 percent)</td>
<td>(51.3 percent)</td>
</tr>
<tr>
<td>Value shares bought by foreigners (USD million)</td>
<td>46.1</td>
<td>44.6</td>
<td>39.0</td>
<td>(15.3 percent)</td>
<td>(12.5 percent)</td>
</tr>
<tr>
<td>Value shares sold by foreigners (USD million)</td>
<td>66.9</td>
<td>67.3</td>
<td>34.8</td>
<td>(48.0 percent)</td>
<td>(48.3 percent)</td>
</tr>
<tr>
<td>Volume shares bought by foreigners (million)</td>
<td>20.0</td>
<td>38.4</td>
<td>16.0</td>
<td>(19.9 percent)</td>
<td>(58.3 percent)</td>
</tr>
<tr>
<td>Volume shares sold by foreigners (million)</td>
<td>50.7</td>
<td>59.8</td>
<td>47.4</td>
<td>(6.5 percent)</td>
<td>(20.8 percent)</td>
</tr>
<tr>
<td>Market Capitalisation (USD billion)</td>
<td>10.78</td>
<td>17.96</td>
<td>17.32</td>
<td>60.7 percent</td>
<td>(3.6 percent)</td>
</tr>
</tbody>
</table>

Source: Zimbabwe Stock Exchange

6.2 Interest rates

Commercial bank weighted lending rates for corporates marginally increased by 0.1 percentage points from 7.01 percent in September 2017 to 7.11 percent in September 2018 (Figure 12). On the other hand, lending rates to individuals increased by 0.70 percentage points from 8.86 percent to 9.56 percent over the same period. With the recent jump in inflation from single digit to two digit level, it is expected that the weighted lending rates will also increase. This will adversely impact the level of outstanding government domestic debt.

Figure 12: Commercial bank weighted lending interest rates

Source: Reserve Bank of Zimbabwe
6.3 Monetary developments

As at end of September 2018, total money supply was USD10.1 billion, up from USD7.5 billion in September 2017 (Figure 13). The growth in total domestic credit mainly from government borrowing continues to underpin the strong growth in money supply (Figure 14).

**Figure 13: Money supply (M3), June 2013 to September 2018**

![Image of graph showing money supply from June 2013 to September 2018]

*Source: Reserve Bank of Zimbabwe*

However, the annual growth in money supply subsided between August and September 2018, reflecting a commitment by the government to tighten the growth on budget deficit, in line with the need for macroeconomic stabilization elaborated in the Transitional Stabilization Programme.

**Figure 14: Drivers of domestic credit growth**

![Image of bar chart showing drivers of domestic credit growth]

*Source: Reserve Bank of Zimbabwe*
Total domestic credit stood at USD14.2 billion at the end of September 2018. The central government had the largest share of domestic credit (66.1 percent), resulting in the crowding out of private sector credit (27.5 percent) – Figure 15. In total, the government took more than 70 percent of domestic credit.

**Figure 15: Distribution of domestic credit, September 2018**

![Pie chart showing distribution of domestic credit]

**Source: Reserve Bank of Zimbabwe**

Out of the USD3.9 billion domestic credit which went to the private sector, USD2.5 billion was distributed as loans and advances to various sectors of the economy. Individuals continue to get the largest share of loans and advances (26.5 percent) ahead of the productive sectors of the economy (Figure 16). The interest rate differentials between individual and corporate lending rates, where rates for the former are higher, could be incentivising banks to lend to individuals. Another incentive could be that individual loans are relatively safe because they are salary backed.

**Figure 16: Distribution of sectoral loans and advances**

![Pie chart showing distribution of sectoral loans and advances]

**Source: Reserve Bank of Zimbabwe, September 2018**
6.4 Inflation

Annual inflation

Annual inflation continue to rise; in month of November 2018, year on year inflation gained 10.2 percentage points to 31.01 percent from 20.85 percent recorded in October 2018. The increase in annual inflation was mainly driven by the increase in the prices of non-food items which accounted for 16.89 percent of the weighted change in inflation whilst food and non-alcoholic beverages accounted for 14.32 percent of the weighted change (Figure 17). Non-food items that witnessed high increases in prices between November 2017 and 2018 are clothing and footwear (69.14 percent), recreation and culture (56.7 percent), and furniture, household equipment and maintenance (46.01 percent).

Figure 17: Trend in inflation (November 2017 to November 2018)

Source: ZIMSTAT

Monthly inflation

Month on month inflation shed 7.24 percentage points from 16.4 percent recorded in the month of October to 9.2 percent in the month of November 2018. The slowdown in the growth of month on month inflation was as a result of stabilizing unofficial exchange rates between the USD dollar and the bond notes and electronic balances in the month of November 2018, as well as efforts by manufacturers to ensure availability of basic goods.

Whilst month on month inflation is expected to decelerate owing to stabilizing of parallel market rates, year on year inflation is expected continue within the 2 digit range owing to the base effect as well as price stickiness in the short term.
7. EXTERNAL SECTOR AND DEBT

7.1 Exports, imports and balances

During the period February\(^1\) to October 2018, total goods worth about USD5.2 billion were imported into the country. This implied an increase of about 27 percent compared to the level of imports recorded over the same period in 2017. Total exports over the same period increased by about 23 percent compared to 2017 to about USD3.2 billion. This implies that Zimbabwe experienced a balance of trade deficit of about USD2 billion, which worsened by about 34 percent compared to the same period in 2017. This means that although exports, which are the main source of foreign currency, are increasing, the country is experiencing a net resource outflow due to a generally increasing importing appetite. This is largely a reflection of the failure by the local industry to provide goods and services which meets the general expectations of the importing stakeholders.

**Figure 18: Imports and exports for Zimbabwe, February-October 2018 and 2017**

![Graph showing imports and exports for Zimbabwe](source: ZIMSTAT)

The main import product is fuel, with unleaded petrol and diesel constituting about 23 percent of total imports during the period under review. Compared to 2017, the importation of unleaded petrol and diesel increased by about 29 percent to about USD1.2 billion. This increase was largely spurred by the importation of

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\(^1\) January statistics are not yet available from ZIMSTAT due to the system challenges experienced by ZIMRA in December 2017 and January 2018.
unleaded petrol, which increased by about 36 percent while diesel imports increased by about 26 percent. However, as a ratio of total imports over the period, fuel has remained at about 23 percent of total imports for both 2017 and 2018.

The high fuel imports were partly attributed to general increase in economic activity which brings with it the needs for more fuel. Increased importation of vehicles also had a larger role compared to the increase in economic activity. For example, the importation of different categories of vehicles\(^2\) increased significantly by about 90 percent between 2017 and 2018 during the nine-month period under review to about USD382 million. It is expected that as the measures announced under the 2019 National Budget Statement to levy vehicle import duty in foreign currency, which is expected to reduce vehicle import demand, takes effect, the pressure on fuel importation could also be contained.

### 7.2 Debt developments

Domestic and external debt remains unsustainable at USD9.6 billion and USD7.7 billion, respectively translating to USD17.3 billion in total debt as at end of September 2018. Of the external debt, interest arrears and penalties constituted about USD5.9 billion, which translates to about 76.6 percent of external debt. The existence of arrears shows that Zimbabwe is in a debt distress. However, in the outlook the Government intends to curb the growth of domestic debt by implementing fiscal rules as enunciated in the Public Finance Management Act [Chapter 22:19] and the Public Debt Management Act [Chapter 22:21], a development which is commendable. Section 11(2) of the Public Debt Management Act requires that total outstanding Public and Publicly Guaranteed Debt as a ratio of GDP not to exceed 70 percent at the end of any fiscal year. Adherence to fiscal rules will curb unnecessary recurrent expenditure and create resources for capital expenditure and may reduce acquisition of new debt.

The 2019 National Budget Statement indicated that the implementation of reforms under the Transitional Stabilisation Programme will enable implementation of arrears clearance strategy to unlock new concessionary financing. A coherent debt strategy linked to fiscal rules can assist Zimbabwe to desist from acquiring new debt especially for consumptive purposes. The bulk of new debt acquired should be reserved to fund the productive sector.

\(^2\) HS Code 8702 to 8704
Despite the revision of the debt sustainability thresholds for low income countries effective 31 July 2018 by the IMF, Zimbabwe remains classified as in debt distress due to the existence of the arrears. So, what is critical is to clear the arrears in order to achieve a better rating which will pave way for the country to have access to concessionary financing to enable industry to retool.

8. TOPICAL/THEMATIC ISSUES

8.1 Zimbabwe’s Human Capital Index

Zimbabwe is ranked 114 out of 157 countries by the 2018 Human Capital Index (HCI). The indicator measures the amount of human capital that a child born today can expect to attain by the age of 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health. The index aggregates five health and education indicators namely the probability of survival to age five, a child’s expected years of schooling, harmonized test scores as a measure of quality of learning, adult survival rate (fraction of 15-year olds that will survive to age 60), and the proportion of children who are not stunted. Zimbabwe’s score of 0.44 means the earning potential of its youngest generation over their lifetime is only 44 percent of what it could be, if they had complete education and good health (Table 5). They show that the country is losing about 56 percent of its productivity by not investing fully in human capital. The Harmonized Test Score for students in Zimbabwe is 396 against a minimum attainment of 300 and 625 for advanced attainment. This shows that to enhance productivity as Zimbabwe aims to become an upper middle-income country by 2030, upscaling investment in social services such as education and health continues to be a priority to achieve growth in human capital.

A comparison between Zimbabwe and other selected SADC countries shows that Zimbabwe is trailing behind Seychelles and Mauritius which had index of 0.68 and 0.63 respectively. However, Zimbabwe’s human capital is better equipped compared to even upper middle-income countries like Botswana (0.42), Namibia (0.43) and South Africa (0.41). Other lower middle-income countries like Zambia (0.40) and low-income countries like Democratic Republic of Congo (0.37), Malawi (0.41) and Mozambique (0.36) have a lower human capital index as compared to that of Zimbabwe. Zimbabwe is doing well on children’s probability of survival up to the age of five, fraction of kids under five not stunted, expected years of school and learning adjusted years of school. However, Zimbabwe could improve on adult survival rate where 67 percent of 15-year olds will survive until age 60. Given that 73 out of 100 children are not stunted, the remainder of 27 out of 100 children are stunted.
and are at risk of cognitive and physical development limitations that can last a lifetime. Hence, Zimbabwe should fight to reduce and ultimately eliminate stunting in children to improve human capital.

Table 5: Zimbabwe’s Human Capital Index compared to Selected SADC countries

<table>
<thead>
<tr>
<th>Country Name</th>
<th>Probability of Survival to Age 5</th>
<th>Expected Years of School</th>
<th>Harmonized Test Scores</th>
<th>Learning-Adjusted Years of School</th>
<th>Fraction of Kids Under 5 Not Stunted</th>
<th>Adult Survival Rate</th>
<th>Human Capital Index</th>
<th>Overall ranking</th>
</tr>
</thead>
<tbody>
<tr>
<td>Botswana</td>
<td>0.96</td>
<td>8.4</td>
<td>391</td>
<td>5.3</td>
<td>0.69</td>
<td>0.79</td>
<td>0.42</td>
<td>119</td>
</tr>
<tr>
<td>Democratic Republic of Congo</td>
<td>0.91</td>
<td>9.2</td>
<td>318</td>
<td>4.7</td>
<td>0.57</td>
<td>0.75</td>
<td>0.37</td>
<td>141</td>
</tr>
<tr>
<td>Malawi</td>
<td>0.94</td>
<td>9.4</td>
<td>359</td>
<td>5.4</td>
<td>0.63</td>
<td>0.73</td>
<td>0.41</td>
<td>125</td>
</tr>
<tr>
<td>Mauritius</td>
<td>0.99</td>
<td>12.5</td>
<td>473</td>
<td>9.5</td>
<td>0.57</td>
<td>0.94</td>
<td>0.63</td>
<td>51</td>
</tr>
<tr>
<td>Mozambique</td>
<td>0.93</td>
<td>7.4</td>
<td>368</td>
<td>4.4</td>
<td>0.57</td>
<td>0.69</td>
<td>0.36</td>
<td>148</td>
</tr>
<tr>
<td>Namibia</td>
<td>0.96</td>
<td>8.9</td>
<td>407</td>
<td>5.8</td>
<td>0.77</td>
<td>0.71</td>
<td>0.43</td>
<td>117</td>
</tr>
<tr>
<td>Seychelles</td>
<td>0.99</td>
<td>13.7</td>
<td>463</td>
<td>10.1</td>
<td>0.92</td>
<td>0.84</td>
<td>0.68</td>
<td>44</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.96</td>
<td>9.3</td>
<td>343</td>
<td>5.1</td>
<td>0.73</td>
<td>0.71</td>
<td>0.41</td>
<td>126</td>
</tr>
<tr>
<td>Zambia</td>
<td>0.94</td>
<td>9.2</td>
<td>358</td>
<td>5.2</td>
<td>0.60</td>
<td>0.71</td>
<td>0.40</td>
<td>131</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>0.95</td>
<td>10.0</td>
<td>396</td>
<td>6.3</td>
<td>0.73</td>
<td>0.67</td>
<td>0.44</td>
<td>114</td>
</tr>
</tbody>
</table>

Source: World Bank’s Human Capital Index Data Set, 2018

At the top five of the global rankings are East Asian countries/territories, including Singapore (0.88), South Korea (0.84), Japan (0.84) and Hong Kong (0.82) due to these countries’ focus on education in particular as the main driver of their rapid development in the 20th century. This shows that Zimbabwe’s programme on Science Technology Engineering and Mathematics (STEM), a curriculum based on the idea of educating students in four specific disciplines – science, technology, engineering and mathematics which started in 2016 and the new development of scrapping of user fees for maternal health is a huge step towards improving human capital in Zimbabwe. This is happening at a time when Zimbabwe intends to become an upper middle-income country through its Vision 2030.

8.2 Zimbabwe ranked 47 on the Global Gender Gap Index

namely economic participation and opportunity, educational attainment, health and survival and political empowerment. Zimbabwe had a global index of 0.721 which means the country remains with 27.9 percent gender gap to close. On the sub-pillars, the country had the highest ranking on health and survival (ranked 1st) with a score of 1, followed by economic participation and opportunity (40th) with a score of 0.73. Political empowerment ranked 63 at a score of 0.19 with educational attainment ranked 92 despite having a much higher score of 0.982. Zimbabwe is ranked among the top 10 countries to reduce the gender gap in Sub-Saharan Africa together with South Africa, Burundi, Uganda, Mozambique, Botswana, Cameroon and Tanzania (Table 6).

Table 6: Zimbabwe’s Gender Gap Index compared to Top 10 Sub-Saharan Countries

<table>
<thead>
<tr>
<th>World Ranking</th>
<th>Country</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.</td>
<td>Rwanda</td>
<td>0.804</td>
</tr>
<tr>
<td>10.</td>
<td>Namibia</td>
<td>0.789</td>
</tr>
<tr>
<td>19</td>
<td>South Africa</td>
<td>0.755</td>
</tr>
<tr>
<td>31.</td>
<td>Burundi</td>
<td>0.741</td>
</tr>
<tr>
<td>43.</td>
<td>Uganda</td>
<td>0.724</td>
</tr>
<tr>
<td>47.</td>
<td>Zimbabwe</td>
<td>0.721</td>
</tr>
<tr>
<td>49.</td>
<td>Mozambique</td>
<td>0.721</td>
</tr>
<tr>
<td>55.</td>
<td>Botswana</td>
<td>0.715</td>
</tr>
<tr>
<td>57.</td>
<td>Cameroon</td>
<td>0.714</td>
</tr>
<tr>
<td>71.</td>
<td>Tanzania</td>
<td>0.704</td>
</tr>
</tbody>
</table>

Source: World Economic Forum’s Global Gender Gap Report, 2018

Despite Zimbabwe scoring better on health and survival, most funding for the health sector comes from donors which can be volatile in the long-term. Efforts should be made to finance the health sector from domestic resources which are a sustainable way of financing. There is also need to improve further on other sub-pillars in order to close the gender gap.

9. CONCLUSION

The key issues that the GOZ should aim at addressing include:
- Restoration of macroeconomic stability;
- Addressing the debt arrears situation, particularly the scheduled clearance of arrears to multilateral creditors;
- Measures to improve the investment climate, including restoration of property rights through scaling up of the ease of doing business reforms.
The Bank Group is continuing its engagement with the Government and development partners aimed at reaching a solution on Zimbabwe’s debt arrears clearance in 2019.

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