1. OVERVIEW

The Zimbabwe economy continues to be characterized by challenges at a time when government is trying to develop appropriate policy responses. Inflation continues to be the highest in the region, as the inflation rate for January 2019, which was at 56.9 percent, was the highest in Africa. At the global level, Gold and platinum prices, which are the two main mineral export products for Zimbabwe, declined by 3.0 percent and 18.5 percent respectively in January 2019 compared to January 2018, imposing negative pressures on foreign currency earning potential as well as government revenues from royalties. The average wheat price also increased by 16.0 percent in January 2019 compared to January 2018, at a time when Zimbabwe is a net wheat importer and shortage of bread and other flour based confectionaries continue to characterize the economy. The uncertainty surrounding Zimbabwe’s currency reform and negative economic outlook however saw the Zimbabwe Stock Exchange being among the best performers among selected stock exchanges in the region as local investors sought a safe haven for their investments on the local bourse.

In the real sector, about 169,772 farmers had registered to grow tobacco as at 31 January 2019, which is a 46 percent increase compared to the comparative period in 2018. Zimbabwe had earned USD119.06 million by 31 January 2019 from tobacco exports, which represents an increase of about 94 percent compared to the corresponding period in 2018. On mining, gold deliveries started on a low note with a total of 1.77 tonnes delivered to Fidelity Printers and Refineries, in January 2019. However, deliveries are expected to increase due to re-opening of closed mines such as Elvington and Jena gold mines. Zimbabwe should capitalize on its booming feedstock to support the gold value chain. Similarly, the country can boost its lithium production which recorded about 1,000 tonnes in 2017 constituting about 2.3 percent of the global production in 2017 to capitalize on the booming prices and the high demand of lithium for use in electric cars. Manufacturing output in 2018 increased by about 12 percent, although the increase was only pushed by three subsectors (non-metallic products; drinks, tobacco and beverages; and chemicals and petroleum products) out of the eight which registered higher growth rates compared to 2017. The remaining subsectors had lower growth rates in 2018 compared to 2017. Zimbabwe received about 2.7 million tourists in 2018, which surpassed the country’s peak
recorded in 1999. Thus, there is some potential in the real sector which can be leveraged upon through growth enhancing policies.

On the fiscal side, net tax revenue collection for 2018 stood at USD5.06 billion, having increased by 35 percent compared to the same period in 2017. The major drivers were individual taxes, value added tax, excise duty and the Intermediate Money Transfer Tax, which was revised in October 2018 from 5 cents per transaction to 2 percent per dollar for every intermediated money transfer. The ability to expand fiscal space in the face of competing needs under the austerity measures is highly commendable.

In the monetary and financial sector, average lending rates have remained stable in November 2018 while the inflation rate was increasing, which implies that real incomes from bank lending activities were negative. This forced banks to reduce their lending activities. Banks credit growth had started decelerating, with domestic credit growth from depository institutions falling from 50.0 percent in September 2018 to 42.4 percent in November 2018. Money supply growth had already started decelerating in November 2018 as a result of the government’s efforts to curb its growing budget deficit which has been a main contributor to money supply growth.

External sector developments show total exports over the period February to December 2018 stood at about USD4.1 billion, while total imports over the same period were about USD6.4 billion. This implies that exports would need to grow by about 58 percent per month if they are to finance import demand, given that factor income and transfers are not predictable. Import containment measures introduced under the 2019 National Budget Statement of levying some imports in foreign currency had already started to bear fruits in December 2018, as there was a significant fall in the importation of motor vehicles, fruits, vegetables, tomatoes and potatoes, wines and spirits, as well as cigarettes. This apparently resulted in some foreign currency savings.

If a number of reforms being undertaken in Zimbabwe under the Government’s mantra of ‘Zimbabwe is open for business’, which include amendment of the Indigenization and Economic Empowerment (IEE) policy through the Finance Act (1 of 2018), and the ease of doing business reforms, begin to bear fruits, and coupled with strict adherence to fiscal rules, operationalization of the one stop investment shop, and the rehabilitation and expansion of infrastructure, among others, the country can be transformed into a middle-income economy by 2030.

2. REGIONAL ECONOMIC DEVELOPMENTS
2.1 Regional inflation Developments
Zimbabwe recorded the highest inflation rate in the region with year on year inflation at 56.9 percent in the month of January 2019. Among select Southern Africa Development Community (SADC) countries, Angola is the second with a steady rate of 18.2 percent. Unlike other countries, Zimbabwe’s inflation trajectory has been constantly upwards since October 2018 while other regional member countries seem to have stabilized at rates below 10 percent (Figure 1).
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 SADC Industrialization Strategy and Roadmap to be implemented over the period 2015-2063. 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 a negative trade balance and an 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. The country is 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. Consolidating its economic reform programmes such as ease of doing business and other reforms enunciated in the Transitional Stabilisation Programme of 2018-2020 could go a long way in creating a conducive environment for the manufacturing sector and the country’s potential to exploit regional trade opportunities.

2.3 Regional Stock market developments
Three of Zimbabwe Stock exchange indices (Top 10, Industrial Index and All Share Index) were among the best performing indices among selected regional stock exchanges having gained 9.1 percent, 8 percent and 7.7 percent respectively in January 2019 compared to December 2018 (Table 1). This was followed by Zambia and Kenyan stock market indices. The worst performing indices were the Mauritius SemDex and Zimbabwe Stock Exchange Mining Index which lost 0.3 percent and 6.4 percent respectively between December 2018 and January 2019.

Table 1: Summary of selected regional stock exchange performances: January 2019

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
<th>Jan-18</th>
<th>Dec-18</th>
<th>Jan-19</th>
<th>m.o.m % Change</th>
<th>y.o.y % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zimbabwe</td>
<td>Top 10</td>
<td>90.4</td>
<td>145.0</td>
<td>158.3</td>
<td>9.1</td>
<td>75.0</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>All Share Index</td>
<td>91.3</td>
<td>146.2</td>
<td>157.5</td>
<td>7.7</td>
<td>72.5</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Industrial Index</td>
<td>305.4</td>
<td>487.1</td>
<td>523.9</td>
<td>8.0</td>
<td>72.2</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>Mining Index</td>
<td>130.4</td>
<td>227.7</td>
<td>213.1</td>
<td>-6.4</td>
<td>63.4</td>
</tr>
<tr>
<td>Zambia</td>
<td>LSE All Share</td>
<td>5,326.8</td>
<td>5,248.4</td>
<td>5,678.0</td>
<td>8.2</td>
<td>6.6</td>
</tr>
<tr>
<td>Namibia</td>
<td>NSX</td>
<td>1,358.2</td>
<td>1,306.8</td>
<td>1,357.5</td>
<td>3.9</td>
<td>-0.1</td>
</tr>
<tr>
<td>Botswana</td>
<td>BSE Foreign Company</td>
<td>1,576.6</td>
<td>1,570.3</td>
<td>1,570.3</td>
<td>0.0</td>
<td>-0.4</td>
</tr>
<tr>
<td>Mauritius</td>
<td>Semdex</td>
<td>2,256.2</td>
<td>2,218.5</td>
<td>2,212.9</td>
<td>-0.3</td>
<td>-1.9</td>
</tr>
<tr>
<td>South Africa</td>
<td>JSE All Share</td>
<td>59,506.1</td>
<td>52,736.9</td>
<td>54,156.8</td>
<td>2.7</td>
<td>-9.0</td>
</tr>
<tr>
<td>Tanzania</td>
<td>All Share Index</td>
<td>2,349.8</td>
<td>2,041.4</td>
<td>2,127.0</td>
<td>4.2</td>
<td>-9.5</td>
</tr>
<tr>
<td>Botswana</td>
<td>BSE Domestic Company</td>
<td>8,750.0</td>
<td>7,851.9</td>
<td>7,875.4</td>
<td>0.3</td>
<td>-10.0</td>
</tr>
<tr>
<td>Kenya</td>
<td>NSE All Share</td>
<td>180.6</td>
<td>140.4</td>
<td>150.3</td>
<td>7.1</td>
<td>-16.8</td>
</tr>
<tr>
<td>Kenya</td>
<td>NSE 20</td>
<td>3,737.3</td>
<td>2,833.8</td>
<td>2,958.4</td>
<td>4.4</td>
<td>-20.8</td>
</tr>
</tbody>
</table>

Source: Investing.com

On a year on year basis the Zimbabwe Stock Exchange was the best performer among selected stock exchanges with its indices in the positive territory whilst the Kenyan Stock Market indices were the worst performers. The performance of the Zimbabwe Stock Exchange was buoyed by uncertainty surrounding Zimbabwe’s currency reform and negative economic outlook that characterized the second half of 2018 stretching into January 2019, forcing local investors to seek a safe haven for their investments on the local bourse.
3. COMMODITIES PRICES IMPACTING ZIMBABWE

**Precious metals**

The price of gold declined by 3.0 percent to USD1291.75 per troy ounce in January 2019 from US$1331.30 per troy ounce in January 2018 (Figure 2). Over the same period, the price of platinum also declined by 18.5 percent to USD806.77 per troy ounce from USD990.12 per troy ounce. The reasons for the decline include progress in the trade talks between China and the United States of America, an expected deceleration in world economic growth in 2019, a relatively stronger US dollar, and a higher effective U.S. federal funds rate, which all weighed down the prices of precious metals over the period.

Figure 2: Gold and Platinum prices in January 2019

![Gold and Platinum prices in January 2019](image)

*Source: World Bank, January 2019*

**Crude oil**

The average crude oil price declined by 14.6 percent to USD56.58 per barrel in January 2019 from USD66.23 per barrel in January 2018 (Figure 3) on the back of expected deceleration in global liquid fuels consumption, annual increase in non-OPEC oil production by 2.79 million barrels per day and increase in oil production spare capacity in the OPEC countries in the first quarter of 2019. This, however, did not help ease prices in Zimbabwe, as this also coincided with the period of high fuel price increases by the government.
Figure 3: Average crude oil price in January 2019

Source: World Bank, January 2019

Wheat and maize
The average wheat price increased by 16.0 percent to USD214.98 per metric tonne in January 2019 from USD185.26 per metric tonne in January 2018 (Figure 4) due to unfavourable weather conditions in Argentina and Australia, tight export supplies in the Black Sea region, and poor weather conditions for winter wheat planting in the United State of America.

Figure 4: Maize and wheat in January 2019

Source: World Bank, December 2018

HIGHLIGHTS
The average wheat price increased by 16.0 percent to USD214.98 per metric tonne in January 2019 from USD185.26 per metric tonne in January 2018. On the other hand, maize price increased by 7.0 percent to USD166.74 per metric tonne in January 2019 from USD155.84 per metric tonne in January 2018.
On the other hand, maize price increased by 7.0 percent to USD166.74 per metric tonne in January 2019 form USD155.84 per metric tonne in January 2018. Underpinning maize price increase was dry weather conditions in South America and strong international demand for maize.

4. REAL SECTOR DEVELOPMENTS

4.1 Agriculture

Tobacco

As at 31 January 2019, a total of 169,772 farmers had registered to grow tobacco in the 2018/19 agricultural season. This represents a 46 percent increase from those that had indicated to do so in the comparative period for 2017/18 season.

Figure 5: Flue cured tobacco registrations for 2018/19 agricultural season as at 31 January 2019

Seventy-two percent of the farmers were from Mashonaland Central and Mashonaland West with the remainder from the other five provinces\(^1\) where tobacco is grown. The majority of tobacco growers were communal farmers (Figure 5). New growers accounted for 24.2 percent of all the farmers that registered to grow tobacco.

As at 31 January 2019, Zimbabwe had earned USD119.06 million from 21.88 million kg of tobacco that was sold at an average price of USD5.44/kg. These

---

\(^1\) Manicaland, Mashonaland East, Midlands, Masvingo and Matebeleland
export earnings represent a 93.9 percent increase on revenue compared to the corresponding period in 2018 where 12.81 million kg were sold at an average price of USD4.79/kg. China remained a dominant export market, contributing a share of 62.84 percent in export earnings followed by South Africa and Holland with respective export revenue shares of 13.59 percent and 5.47 percent.

The bulk of Zimbabwe’s tobacco is currently exported in primary form. Contribution of tobacco exports to Zimbabwe’s economic growth however, can be leveraged by increased thrust on value addition and beneficiation.

**Beef**

Zimbabwe recorded a total of 266,228 cattle slaughters in 2018, a marginal increase of 2 percent on the previous year’s figure of 261,191 (Figure 6). The 2018 slaughters were the second highest since 2010, having peaked in 2016.

**Figure 6: Annual Cattle Slaughters, 2010 – 2018**

![Graph showing annual cattle slaughters from 2010 to 2018](image)

*Source: Livestock and Meats Advisory Council*

The Livestock and Meats Advisory Council revealed that this marginal increase in meat slaughters was partly explained by increased coverage of monitored abattoirs by meat inspectors from the Department of Crop and Livestock in Mashonaland Central. In 2018, the monthly slaughters were largely varied with August recording the highest monthly figure of 26,292. The currency and pricing uncertainty that crept into the market towards the end of 2018 saw cattle producers holding onto their cattle hence the reduced slaughters. This reduced supply partially explains the sharp increase in the price of beef on the local market. For example, the wholesale price of beef in the economy category increased by 58 percent from USD3.80/kg in August 2018 to USD7.00/kg in December 2018.
The beef industry however, continues to be constrained by escalating procurement costs and disease outbreaks reported from around the country among others. Disease outbreaks have resulted in large cattle producing regions being put under quarantine throughout the year.

**Poultry sector**

*Broiler Breeding*

Zimbabwe Poultry Association reported that, in the fourth quarter of 2018, breeding stocks had recovered to levels before the outbreak of Avian Influenza. Broiler breeder stocks (growing and in-lay) averaged 636,193 birds per month in the fourth quarter of 2018, being 37 percent up compared to the same period in 2017. There is a general rising trend in day old chick production from the hyper inflationary environment in 2009, with a slight deep in 2017 as the sector was hit by avian flu, which it has since recovered from (Figure 7).

**Figure 7: Broiler day old chicks produced between 2009 and 2018**

<table>
<thead>
<tr>
<th>Year</th>
<th>Millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>12.9</td>
</tr>
<tr>
<td>2010</td>
<td>37.5</td>
</tr>
<tr>
<td>2011</td>
<td>52.1</td>
</tr>
<tr>
<td>2012</td>
<td>55.1</td>
</tr>
<tr>
<td>2013</td>
<td>64.4</td>
</tr>
<tr>
<td>2014</td>
<td>78.4</td>
</tr>
<tr>
<td>2015</td>
<td>75.9</td>
</tr>
<tr>
<td>2016</td>
<td>74.8</td>
</tr>
<tr>
<td>2017</td>
<td>68.9</td>
</tr>
<tr>
<td>2018</td>
<td>90.8</td>
</tr>
</tbody>
</table>

*Source: Zimbabwe Poultry Association*

Total broiler meat production averaged 12,791mt per month in the fourth quarter of 2018, an increase of 30 percent on the corresponding period of 2017. This increase was realised by both large-scale and small-scale producers with the respective margins of 23 percent and 33 percent. The annual meat production for 2018 reached 143,775mt, an increase of 36 percent compared to the corresponding period of 2017.
4.2 Mining

Gold sector

Gold deliveries started the year on a low note with a total of 1.77 tonnes delivered to Fidelity Printers and Refineries, Zimbabwe’s gold buying centre in January 2019 (Figure 8). The 2019 National Budget Statement indicated that Eureka gold mine has been re-opened and the mine has the capacity to become the biggest gold mine in the country with capacity to produce about 200 kgs of gold monthly with an annual production of about 2.5 tonnes. Other gold mines targeted for re-opening are Elvington and Jena gold mines. However, despite the fact that Zimbabwe has a high gold yield per square kilometre and an upsurge of gold output in 2018 to reach a record high of 33.29 tonnes, beneficiation and value addition of gold and other minerals is still lagging behind. Hence, the need to move away from the current comparative advantage to competitive advantage to support the downstream and upstream industries. The current boom in gold production should be used as feedstock to support the gold value chain.

Figure 8: Gold deliveries, January 2015 – January 2019

Lithium sector

The mining industry is not well diversified in terms of commodities as concentration is on high-value minerals at the expense of some industrial and base metals like lithium, tin, limestone, which are experiencing good prices or have the potential for developing linkages. The contribution and importance of lithium as one of the most trending minerals is due to booming prices and the high demand of lithium for use in electric cars. This led to the need to revisit the mineral to see its importance to the economy of Zimbabwe. Zimbabwe has been producing lithium at Bikita Minerals since 1952. It is estimated that over 11 million tonnes
of lithium/caesium/tantalite (LCT) petalite resource exist at Bikita in Masvingo Province. Zimbabwe is the fifth largest producer of lithium in the world after Australia, Chile, Argentina and China (Table 2). According to the latest figures on the United Stated (US) Geological Survey, Zimbabwe’s production of 1,000 tonnes constituted about 2.3 percent of the global production in 2017.

Table 2: Top five Lithium producers in the world, 2017²

<table>
<thead>
<tr>
<th>Country</th>
<th>Lithium Production (Tonnes)</th>
<th>World Ranking</th>
<th>Lithium Reserves</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>18,700</td>
<td>1</td>
<td>2,700,000</td>
</tr>
<tr>
<td>Chile</td>
<td>14,100</td>
<td>2</td>
<td>7,500,000</td>
</tr>
<tr>
<td>Argentina</td>
<td>5,500</td>
<td>3</td>
<td>2,000,000</td>
</tr>
<tr>
<td>China</td>
<td>3,000</td>
<td>4</td>
<td>3,200,000</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>1,000</td>
<td>5</td>
<td>23,000</td>
</tr>
<tr>
<td>Portugal</td>
<td>400</td>
<td>6</td>
<td>60,000</td>
</tr>
<tr>
<td>US</td>
<td>-</td>
<td>-</td>
<td>35,000</td>
</tr>
<tr>
<td>World Total</td>
<td>43,000</td>
<td></td>
<td>16,000,000</td>
</tr>
</tbody>
</table>

Source: US Geological Survey, 2018

Lithium’s occurrence is in areas such as Bikita, Kamativi and the Zambezi belt. The country is set to increase its production levels once the AIM-listed Premier African Minerals' Zulu Project near Fort Rixon and Australian based Prospect Resources' Arcadia Project near Harare are brought into production. Production for Prospect Resources is expected to begin in 2019. The move is commendable given the booming global lithium demand hence this presents an opportunity for Zimbabwe to upscale production and benefit from the current price boom. However, despite the positive future prospects of the lithium industry, Zimbabwe is still far from beneficiation and value addition of this industrial mineral for final use in batteries, pharmaceuticals, heat resistant glass, ceramics and greases. Given the sharp increase in global demand for electric cars, Zimbabwe should position itself to further process lithium to its final uses as it intends to become a middle-income country by 2030. That way the economy will hedge against volatility of commodity prices on the international market.

Basing on the pronouncements of the Transitional Stabilisation Programme (October 2018 – December 2020), Zimbabwe is capable of moving beyond the natural comparative advantage in resource endowment to competitive advantage that is normally catalysed by beneficiation and the concomitant need to develop high-level industrial skills in both upstream and downstream industries. The 2019 National Budget Statement also reiterated the importance of beneficiation and value addition of minerals. The Government is finalizing the mineral value addition and beneficiation policy to improve domestic smelting and refining in

² The US Geological Survey excluded production figures for the US economy

HIGHLIGHTS

Given the sharp increase in global demand for electric cars, Zimbabwe should position itself to further process lithium to its final uses as it intends to become a middle-income country by 2030.
Zimbabwe. The 2019 Budget Strategy Paper also argues that industry players should consider venturing into non-traditional exports where the sector has some competitive advantage, as opposed to continued concentration on the traditional exports that are losing competitiveness. Lithium battery manufacturing was mentioned as one area earmarked for beneficiation and value addition. This is an investment opportunity for potential investors targeting Zimbabwe.

4.3 Manufacturing

The 2018 manufacturing survey released by the Confederation of Zimbabwe Industries (CZI) generally shows that resuscitating the sector is a challenge which government is likely to continue to be preoccupied with into the near future. Output growth, which had shown an upward trend in 2017 compared to 2016, appears to have plateaued as 2018 began to be characterized by low growth rates (Figure 9). It is only three subsectors (non-metallic products; drinks, tobacco and beverages; and chemicals and petroleum products) out of the eight that registered higher growth rates in 2018 compared to 2017. On the overall the manufacturing sector increased by about 12 percent, apparently pulled up by these three subsectors.

Figure 9: Zimbabwe manufacturing subsector output growth rates (percentage), 2016-2018

![Graph showing output growth rates for different subsectors]

Source: 2018 CZI Manufacturing sector survey

Among the reasons for the high growth rates in the food stuffs as well as the drinks, beverages and tobacco subsectors were new investments. About 62.5 percent of the firms in these sectors made new investments in 2018. The low growth rates in the other sectors were mainly due to failure to access foreign currency in the formal banking system. About 73 percent of the manufacturing
companies indicated that they incur cost premiums of above 20 percent to access foreign currency. Import dependence by manufacturing firms can thus be attributed to the challenges currently bedeviling the sector.

Although the call for resuscitation of the manufacturing sector is being done within the context of export promotion, the manufacturing sector is finding it difficult to export due to factors related to the general operating environment. For example, the firms indicated that local products cannot compete in the international market due to high production costs and low productivity while others indicated that their products are tailor made for the local market. Thus, the resuscitation of the manufacturing sector cannot be separated from the foreign currency reforms thrust.

4.4 Tourism

On 22 January 2019, Zimbabwe’s Ministry of Environment, Tourism and Hospitality Industry in collaboration with a Chinese company - Touch Road International Holdings Group (TRIHG) and Ethiopian Airlines launched a new tourism package known as Tour Africa – New Horizon Project Zimbabwe Chapter. The package emanates from a Memorandum of Understanding that was signed between the Ministry of Environment and TRIHG in China during the first state visit by President Emmerson Mnangagwa in May, 2018. It is implemented under China’s Belt and Road Initiative.

This package will offer educational tours spearheaded by Chinese leading tourism operators and it is envisaged to see Zimbabwe receiving 350 tourists monthly from China, starting in March 2019. The tourists will be provided with an Ethiopian Airlines charter flight through Djibouti, Tanzania and finally to Zimbabwe. It will offer the tourists an opportunity to enjoy the attractive tourist sites dotted around the country. It also includes efforts to strengthen hard infrastructure and soft infrastructure. Further, it also seeks to establish cultural ties with China and promote cultural exchange programs between the two countries. In addition, part of the large Chinese delegation who will be visiting Zimbabwe will include investors coming to explore investment opportunities while enjoying its unique tourist attractions. The launch of the package is coming in at an opportune time when Zimbabwe is aggressively re-engaging the international community to invest in the country.

The Ministry’s thrust is to raise awareness about the tourism facilities that exists for both local and foreign tourists. Thus, the package is meant to ensure that Zimbabwe’s tourism is marketed globally and will go a long way towards improving the country’s image. This newly launched package is therefore challenging local tourism industry players to spruce up their products in line with the new demands and tastes of the tourists.
The launch is riding on the positive rankings that Zimbabwe as a tourist destination has recently received in 2018. These include being ranked 9th by the National Geographic as one of its 19 coolest places to visit in 2019; as well as being ranked among Africa’s top eight destinations by SafariBookings.com the world’s largest and leading Africa safari authority. All these developments, among other factors, are expected to significantly increase tourism sector’s performance. According to the Zimbabwe Tourism Authority, Zimbabwe received about 2.7 million tourists in 2018 and this figure surpasses the country’s peak recorded in 1999. The government’s target is to increase tourist arrivals beyond 5.5 million by 2023. It also aims to grow tourism export receipts from USD1 billion in 2017 to USD3.5 billion by 2023.

Continued efforts in attracting high spending tourists, development and creation of both existing and new tourist services will make Zimbabwe a more attractive tourist destination. In addition, attracting investors who will bring along tourism related services requires creation of a more conducive socio-economic environment. In this regard the ease of doing business reforms currently being implemented by government should be sustained in order to continuously improve the investment climate in the country.

5. FISCAL POLICY

According to the 2018 Zimbabwe Revenue Authority annual performance report, net tax revenue collection stood at USD5.06 billion after deducting refunds mainly for VAT and Customs duty worth about USD 300 million. Net revenue collection for 2018 grew by 35 percent and the major drivers of the growth were individual taxes, VAT, excise duty, Intermediate Money Transfer Tax and customs duty which accounted for 9.9 percent, 8.1 percent, 6.2 percent, 4.2 percent and 3.7 percent respectively of the weighted change in total net tax revenue collection (Table 3).

Increases in taxes from individuals (76 percent) and Value Added Tax (28 percent) were buoyed by salary and price adjustments owing to increased inflationary pressures encountered in 2018. The increases in excise duty (34 percent) and customs duty (47) were as a result of increased imports especially fuel imports. The phenomenal growth in Intermediate Money Transfer Tax by 848 percent was a result of the revision of the Intermediated Tax from 5 cents per transaction to 2 cents per dollar in the last quarter of 2018.

An analysis of contribution by revenue head to the tax mix shows that VAT (net of refunds) accounted for 27.3 percent of the USD 5.06 billion net tax revenue collection, followed by excise duties, individual and companies tax heads which accounted for 18 percent, 17 percent and 16 percent respectively (Figure 10).
Intermediated money transfer tax which accounted for 0.5 percent of net revenue collection in 2017 went up by 3 percentage points to 3.5 percent of net revenue collection in 2018.

Table 3: Annual Tax revenue collection

<table>
<thead>
<tr>
<th>Tax Revenue Head</th>
<th>USD million</th>
<th>Y.o.Y % Change</th>
<th>Weighted Change %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individuals</td>
<td>490.01</td>
<td>76</td>
<td>9.9</td>
</tr>
<tr>
<td>Companies</td>
<td>730.50</td>
<td>11</td>
<td>2.1</td>
</tr>
<tr>
<td>Value Added Tax (Net of refunds)</td>
<td>1,075.01</td>
<td>28</td>
<td>8.1</td>
</tr>
<tr>
<td>Customs Duty Net</td>
<td>295.75</td>
<td>47</td>
<td>3.7</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>675.90</td>
<td>34</td>
<td>6.2</td>
</tr>
<tr>
<td>Mining Royalties</td>
<td>73.11</td>
<td>31</td>
<td>0.6</td>
</tr>
<tr>
<td>WHT on Contracts</td>
<td>126.45</td>
<td>29</td>
<td>1.0</td>
</tr>
<tr>
<td>Intermediate Money Transfer Tax</td>
<td>18.69</td>
<td>848</td>
<td>4.2</td>
</tr>
<tr>
<td>Other Taxes</td>
<td>264.56</td>
<td>-12.3</td>
<td>-0.9</td>
</tr>
<tr>
<td><strong>Total Net Tax Revenue Collection</strong></td>
<td><strong>3,749.97</strong></td>
<td><strong>35</strong></td>
<td><strong>35.0</strong></td>
</tr>
</tbody>
</table>

Source: Zimbabwe revenue Authority (Zimra)

Figure 10: Revenue contribution by Head: 2018 Fiscal year

Source: Zimbabwe revenue Authority (Zimra)

Furthermore, in order to boost government revenue and curb increasing demand for fuel, on the 13th of January the Minister of Finance reviewed excise duty for petrol and diesel from 45 cents and 40 cents per litre to 231 cents and 205 cents per litre respectively.

---

3 SI 09 of 201999 Customs and Excise (Tariff) (Amendment) Notice, 2019 (No. 7);
6. FINANCIAL AND MONETARY SECTOR

6.1 Stock Market

The Zimbabwe Stock Exchange closed the month of January 2019 on a high note. Year on year analysis shows that all indices closed high in January 2019 compared to January 2018 driven by a number of political and economic events that characterized the last half of 2018. Thus the industrial, mining, All Share and Top 10 indices closed the month of January 2019 trading at 525.90, 213.13, 157.54 and 158.28 respectively an increase of 72 percent, 63 percent, 73 percent and 75 percent respectively from a comparable period in 2018. Turnover volume increased by about 144 percent from 50.2 million shares traded in December 2018 to 122.78 million shares in January 2019 (Figure 11).

Figure 11: Trend in Main Indices and Turnover Volume

Turnover value recorded in the month of January 2019 stood at USD 110.28 million an increment of 217.8 percent and 18.7 percent from traded values recorded in January 2018 and December 2018 respectively. On the other hand the value of shares bought by foreigners on the local bourse in January 2019 represented an increment of 128.3 percent and 44.2 percent from the values traded in January 2018 and December 2018. Market capitalisation which stood at USD 8.65 billion in January 2018 rose by 141.4 percent to reach an all-time high of USD 20.89 billion in January 2019 (Table 4).
Table 4: Summary of Stock Market performance

<table>
<thead>
<tr>
<th></th>
<th>Jan-18</th>
<th>Dec-18</th>
<th>Jan-19</th>
<th>M.o.m % Change</th>
<th>Y.o.y % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turnover Value ( USD)</td>
<td>34,704,376</td>
<td>92,935,083</td>
<td>110,277,501</td>
<td>18.7</td>
<td>217.8</td>
</tr>
<tr>
<td>Turnover Volume</td>
<td>50,246,880</td>
<td>144,405,989</td>
<td>122,780,138</td>
<td>(15.0)</td>
<td>144.4</td>
</tr>
<tr>
<td>Value shares bought by</td>
<td>17,780,312</td>
<td>28,144,772</td>
<td>40,593,252</td>
<td>44.2</td>
<td>128.3</td>
</tr>
<tr>
<td>foreigners (USD)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Volume shares bought by</td>
<td>16,009,810</td>
<td>7,676,309</td>
<td>12,442,175</td>
<td>62.1</td>
<td>(22.3)</td>
</tr>
<tr>
<td>foreigners</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market Capitalisation (USD)</td>
<td>8,652,850,064</td>
<td>19,424,406,159</td>
<td>20,888,434,267</td>
<td>7.5</td>
<td>141.4</td>
</tr>
</tbody>
</table>

Source: Zimbabwe Stock Exchange

6.2 Interest rates

The commercial bank weighted average lending rates for individuals declined by 17 basis points from 9.66 percent per annum in November 2017 to 9.49 percent per annum in November 2018, despite rising inflation rate (Figure 12). For corporates, the lending rate increased by 35 basis points from 7.03 percent per annum to 7.38 percent per annum over the same period.

Figure 12: Commercial bank weighted lending interest rates and inflation rate

Source: Reserve Bank of Zimbabwe

The interest rates have remained stable despite the recent rise in the inflation rate above 20 percent since October 2018. With inflation rates well above the lending rates, it implies that real incomes from bank lending activities would be negative, forcing banks to reduce their lending activities. Already banks credit growth has started decelerating, with domestic credit growth from depository institutions falling from 50.0 percent in September 2018 to 42.4 percent in November 2018.
6.3 Monetary developments

The stock of money (M3) stood at USD10.09 billion as at end of November 2018, up by 25.9 percent from USD8.02 billion in November 2017 (Figure 13), on the back of strong domestic credit growth that averaged 45.4 percent over the period. However, the growth in money supply has been decelerating as a result of the government’s efforts to curb its growing budget deficit which has been a main contributor to money supply growth.

**Figure 13: Money supply (M3), January 2014 to November 2018**

![Money supply chart]

*Source: Reserve Bank of Zimbabwe*

The stock of money as at end of November 2018 was largely composed of transferable deposits (80.5 percent). Other deposits or negotiable certificates of deposits constituted 4.2 percent of the money stock while notes and coins in circulation constituted about 4.9 percent (Figure 13). Credit to the private sector grew by 8.0 percent to USD3.99 billion, contributing 2.9 percent to the total growth in domestic credit in November 2018 compared to November 2017. However, USD2.56 billion credit to the private sector was distributed as loans and advances, of which individuals (households) got the largest share (26.8 percent) ahead of productive sectors such as agriculture (17.4 percent), manufacturing (10.5 percent) – Figure 14.

**Figure 14: Distribution of sectoral loans and advances, November 2018**

![Distribution chart]

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

Year on year inflation rate for the month of January 2019 stood at 56.9 percent a 14.8 percentage points’ increase from levels recorded in December 2018. The sharp increase in annual inflation was mainly driven by the increase in the prices of non-tradables (food and transportation services) following government review of fuel prices on the 13th of January 2018 and the expiring of exemptions on designated foreign currency dutiable goods on the 3rd of January 2018.

Month on month inflation which was showing sign of slowing down in the month of December 2018 gained 1.7 percentage points to 10.75 percent in the month of January 2019. The growth in month on month inflation was driven by the increase in the prices of non-food items which grew by 12.83 percent and accounting for 8.53 percent of the weighted change between December 2018 and January 2019. The increase in the prices of non-food items was buoyed by the increase in transport services. The increase in transport fares prompted an increase in food prices particularly meat, fruit and vegetables as farmers rely heavily on hired transport services to carry their produce to market. Thus, meat, fruit and vegetables year on year prices increased by 48.89 percent, 92.44 percent and 62.86 percent respectively (Figure 15).

Figure 15: Trend in Inflation January 2018 to January 2019

Source: Zimbabwe Statistical Agency

Following the review of fuel prices by increasing excise duty on fuel, there was an increase in the public transport fares which buoyed the change in transport related products and service to 130.4 percent and this was followed by Clothing and footwear (82.1 percent). However, the change in prices of goods in the controlled

---

4 SI 10 of 2019 Petroleum (Petroleum Products Pricing) Regulations, SI 09 of 20199 Customs and Excise (Tariff) (Amendment) Notice, 2019 (No. 7); SI 252A of 2018 Customs and Excise (Designation of Foreign Currency Dutiable Goods) Notice, 2018
sectors such health, education, housing, water and electricity and communication remained below the average for all items inflation (Figure 16).

Figure 16: Percentage Change in prices (January 2018 to January 2019)

![Percentage Change in prices](image_url)

Source: Zimbabwe Statistical Agency

7. EXTERNAL SECTOR AND DEBT

Total imports over the period February to December 2018 were about USD4.1 billion, while total imports over the same period were about USD6.4 billion. Both imports and exports reached their peak in November 2018 (Figure 17). However, on average Zimbabwe exports generate about USD368.9 million a month while imports use about USD581 million. This means that exports largely fail to finance imports, as other current account inflows such as factor income and transfers are needed to bridge the gap of about USD212.1 million every month. The implication is that exports would need to grow by about 58 percent per month to meet the current level of import demand. This also implies that measures to contain imports are needed as factor income and transfers from abroad are generally not predictable while the productive capacity of the economy to increase exports has also become constrained. This is also confirmed by the exports/import ratio which has a noticeable upward trend even though it was highly fluctuating (Figure 17). Thus, in general, there was an improvement in export performance relative to imports in 2018 which would need to be complimented by import containing measures.

---

5 The crash of the Automated System for Customs Data (ASYCUDA) World resulted in trade statistics for December 2017 and January 2018 not being available to date.
The 2019 National Budget Statement introduced measures to contain imports by, among other interventions, providing for the charging of import duty in foreign currency for designated products. Among the list of designated products whose duty is levied in foreign currency are motor vehicles, fruits, vegetables, tomatoes and potatoes, wines and spirits, as well as cigarettes. The introduced measures became applicable with effect from 23 November 2018.

Import statistics confirm that there was a drastic reduction in motor vehicle imports in November and December 2018 in response to the levying of duty in foreign currency (Figure 18). The importation of motor vehicles fell from about USD 35.8 million in October 2018 to about USD17.8 million in December 2018. The fall in imports for November and December is also quite apparent for wines and spirits, fruits, as well as vegetables, tomatoes and potatoes. However, the statistics also confirm that while the policy measures were able to reduce imports, the products are still coming into the market as the local market is not able to wholly substitute the foreign markets. This explains why such products have become so expensive in the supermarkets. Overall, the import restriction measures seems to be achieving their intended purpose.

The import restriction measures introduced in 2018 seems to be achieving their intended purpose.

8. TOPICAL/THEMATIC ISSUES
8.1 Unpacking the Government’s Mantra of “Zimbabwe is Open for Business”

The Zimbabwean economy registered an economic decline which saw the country losing about 50.2% of GDP between 2000 and 2008 (ZIMSTAT, 2009). This led to a number of company closure, loss of employment in the formal sector and the transformation of the country from formality to informality. This also led to the dilapidation of infrastructure such as road, rail and intermittent power supply which further affected the competitiveness of local firms compared to their counterparts in the region and beyond. The adoption of the multicurrency regime in February 2009 coupled with cash budgeting system stabilised the economy, but growth remained sluggish.

The World Investment Report 2018 also corroborates the fact that there was a lackluster performance of Zimbabwe. The country registered a decline of about 47% to US$289 million between 2014 and 2017 (Figure 19a). Converting the inward inflows as a percentage of gross fixed capital flows, this translated to a declining share of FDI inflows from 21.6% in 2015 to 12.3% in 2017. A comparison of Zimbabwe with a good performing SADC country in terms of FDI inflows like Mozambique for the same period under review reveals the downward inward FDI flows increased by 53.2% to US$2.293 by 2017. However, the share of Mozambique’s inward FDI to gross fixed capital formation was 60% in 2017 compared to a mere 12.3% for Zimbabwe (Figure 19b). However, with the coming in of the new political dispensation in November 2017, and the adoption of the Government’s “Zimbabwe is open for business” mantra, there is high potential of boosting the inward FDI flows, if right policies and conducive economic environment are prioritised, as the economy aims to become an upper middle-income country by 2030.

Figure 19: Inward FDI inflows and share of inward FDI inflows to gross fixed capital formation, 2014 - 2017

Source: United Nations Conference on Trade and Development (UNCTAD)’s World Investment Report 2018
The New Dispensation ushered in new economic thinking which brought in the idea of opening the economy to make use of any opportunities which may arise in the global economy. Reading through the Transitional Stabilisation Programme, Government intends to create competitive and friendly business environment to enhance domestic and foreign investment. The drive to resolve the external debt and arrears through re-engagement with the international financial community, including bilateral partners post Lima Debt and Arrears Clearance Strategy is a credible option to unlock new concessionary funding given the current high cost of borrowing and high-risk premium ascribed to Zimbabwe. This will address the current problem of high cost of borrowing available in the short term against business demands of long term borrowing due to the longer gestation periods of most projects especially in agriculture, mining and in some instances manufacturing sector. High cost of doing business has discouraged expenditure on research and development which is associated with potential long-term growth of companies. Given the importance of innovation for companies, the opening up of new lines of credit for companies will enable the companies to retool and increase expenditure in research and development which is associated with long term growth of companies.

The Finance Act (No. 1 of 2018) which came into effect on 14 March 2018 amended the Indigenisation and Economic Empowerment (IEE) Act of 2007 which required foreign companies to dispose 51 percent of their shares to indigenous Zimbabweans. This implies that foreign companies are no longer subjected to the indigenisation law except for diamonds and platinum sectors. The Government of Zimbabwe through the Transitional Stabilisation Programme also indicated its intention to review the IEE policy for the remaining sectors. A number of reforms and priority areas were also outlined through the Transitional Stabilisation Programme. These include the intention to restore Zimbabwe’s agriculture contribution as a bread basket of Southern Africa and beyond. This presents quick-win investment opportunities for realisation of self-sufficiency and food surpluses that will see the re-emergence of Zimbabwe as a major contributor to agricultural production and regional food security in the Southern Africa region and beyond. In the mining sector, the Transitional Stabilisation Programme targets re-opening of closed mines, expansion of mines that are operating below capacity, opening of new mines, promoting beneficiation and value addition of minerals in line with the Africa Mining Vision, the continental vision for the mining sector. These are opportunities which investors can tap into.

In line with enhancing competitiveness, the Government intends to address some of the impediments to competitiveness which result in high cost of doing business in Zimbabwe, hence the need to align costs to what is prevailing in the region. This include ZESA and municipal charges, prohibitive Environmental Management Agency (EMA) charges, high wages relative to
productivity, high transport costs including over-dependency on road haulage given constraints undermining cheaper railway transport. Introduction of flexibility in labour laws will result in companies rationalizing their costs to remain competitive in the domestic, regional and global market.

The issue of operationalization of a one stop investment shop through establishment of the Zimbabwe Investment and Development Agency (ZIDA) which merges the functions of the Zimbabwe Investment Authority, the Special Economic Zones Authority and the Joint Venture Unit is positive development to fast track processing of investment approvals, among other functions. The issue of avoidance of arbitrary policy reversals is emphasised as critical to building confidence in the economy. This calls for the need to continue intensifying efforts to improve the ease of doing business in Zimbabwe in line with the Zimbabwe’s open for business mantra.

Government’s intention to prioritize capital expenditure through committing resources which are at least 25% of the budget under the Transitional Stabilisation Programme to rehabilitate and expand infrastructure projects, is a positive development. This, once implemented will enhance the performance of key enablers in the country such as electricity, water, road and information communication technology (ICT). The Transitional Stabilisation Programme’s quick-wins projects focus on expediting completion of on-going infrastructure projects, that way contributing to the revival of the economy.

Some of the focus areas include adoption and implementation of prudent fiscal policy underpinned by adherence to fiscal rules as enunciated in the Public Finance Management Act (Chapter 22:19) together with financial rules. This, if successfully implemented, will curb unsustainable and prolonged fiscal deficits that perpetuate uncontrolled domestic borrowing by Government which crowds out domestic private investment. These initiatives will expand the fiscal space to support capital expenditure which include infrastructure investments. The aforementioned reforms in the indigenization policy, the doing business reforms, adherence to fiscal rules, operationalization of the one stop shop, and the rehabilitation and expansion of infrastructure, anchor the Zimbabwe is open for business mantra.

8.2 United Kingdom and Eastern and Southern African Countries On bridging trade disruptions with the looming BREXIT

Trade between Zimbabwe and the United Kingdom (UK) has been governed by the Eastern and Southern Africa - European Union (ESA-EU) Interim Economic Partnership (IEPA) since 1 January 2008. However, on 29 March 2017, the UK notified the President of the EU Council of its intention to exit the EU under
Article 50 of the Treaty on European Union. This implied that trade conditions between these parties would change come 29 March 2019 when Brexit enters into force.

Recognising the importance of their trading relationship with the UK, the ESA countries (Zimbabwe, Union of Comoros, Madagascar, Mauritius, Seychelles and Zambia) entered into an agreement with the former for the continuance of IEPA following UK’s exit from the EU. Thus on 31 January 2019, the parties signed a separate trade agreement which replicates the terms of the existing agreement (EU-ESA IEPA).

The objectives of the recently signed agreement in the area of trade are:
(a) the provision of full duty free and quota free market access conditions for goods originating in the ESA States into the market of the UK on a secure, long term and predictable basis;
(b) the promotion of trade between the Parties and the acceleration of export led growth to enable the integration of ESA countries into the global economy;
(c) the progressive and gradual liberalisation of the goods market in ESA in accordance with the modalities established in this Agreement; and
(d) the preservation and improvement of market access conditions to ensure that the ESA States are better and not worse off.

This agreement is seen as a move to ensure continued trading without disruption between the parties. Thus, it will allow for continued duty-free imports from ESA and remove the majority of tariffs on British exports to these countries over the coming years. It will further strengthen the existing trading relationship which was worth £1.5 billion in 2017. In the absence of this pact, the UK and the ESA countries would trade on World Trade Organization rules. This would have had implications of diminishing the preferences that Zimbabwe along with the other ESA states were enjoying in this market before. Thus, ESA exporters would incur losses from tariffs they face in the UK market. Evidence based on 2017 trade flows reveals that, meat and fish exporters in ESA could save £30 million a year in tariff charges that could apply if the agreement wasn’t in place, while clothing exporters could save more than £10m and sugar exporters could save around £8m. Striking this deal on the other hand, will guarantee more choice and lower tariffs for products to the UK consumers.

**Issues and challenges**

The UK constitutes a significant market for Zimbabwean products. For example, in 2017 it constituted 17% export market share. The key challenge however, remains that of an export basket that is dominated by low value primary products vis a vis a high value import basket. The other issue lies on Zimbabwe’s preparedness to open up its market to the UK products given that it has been
lagging behind on its commitments to do so under the EPA with the EU. For example, Zimbabwe ratified the interim EPA with the EU in 2012. It was only in October 2016, however, that the country gazetted the first EPA tariff schedule through Statutory Instrument 117 of 2016. Zimbabwe was expected to issue another tariff gazette in 2017 covering the period 2017 to 2022 when tariffs will be zero except for goods on the exclusion list but is yet to do so. Its major concern is that the interim EPA will hurt the already weak local industry given the weak performance of the economy. Another issue is the stringent and costly non-tariff measures (such as sanitary and phyto sanitary measures; standards and other quality issues) that ESA exports have to meet in the UK market.

Possible way forward

It is imperative for Zimbabwe to expedite its policy efforts towards economic resuscitation and industrial development in order to prepare the country for market opportunities in the UK market as well as bracing for competition that the new agreement will bring about. Further, Zimbabwe needs to diversify its export basket by increasing manufactured exports and building the capacity of its exporters to meet the non-tariff measures dictated by the UK market.

9. CONCLUSION

The key issues that the GOZ should aim at addressing include:
- Continuing the efforts already in place for the restoration of macroeconomic stability to guarantee a viable business and investment climate;
- Make efforts to address the debt arrears situation, particularly the scheduled clearance of arrears to multilateral creditors; and

The Bank Group is continuing its engagement with the Government and development partners aimed at reaching a solution on Zimbabwe’s debt arrears clearance.

*The opinions expressed and arguments employed herein do not necessarily reflect the official views of the African Development Bank, its Boards of Directors, or the countries they represent. This document, as well as any data and maps included, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries, and to the name of any territory, city, or area.*

*Questions on this publication should be addressed to Walter O. Odero, Principal Country Economist for Zimbabwe – w.odero@afdb.org.*