1. OVERVIEW

The year 2019 started with Government intensifying efforts to lure more investors into the country in line with the ‘Zimbabwe is open for business mantra’. Senior Government officials visited European countries including Russia in an effort to lure investors to the country. Government also continued exploring a number of options to repay about USD2.2 billion owed to the African Development Bank and the World Bank, which translates to about 29.7 percent of the external debt, currently estimated at USD7.4 billion.

Gold price on the international market remained almost stable as it decreased marginally by 1.1 percent to USD1250.40 in December 2018 from USD1264.45 per troy ounce in December 2017. Platinum on the other hand took a knock as its price declined by 12.8 percent over the same period to USD791.16 per troy ounce mainly due to supply surplus in the market. On a positive note for net oil importers, average crude oil price decreased by 11.8 percent from USD61.19 per barrel in December 2017 to USD53.96 in December 2018 despite an agreement in December 2018 by the Organization of Petroleum Exporting Countries (OPEC) members to cut production by 1.2 million barrels per day from the October 2018 levels. Some factors which led to the decline in price include a record high crude oil production levels by Russia and Saudi Arabia, increases in United States (US) crude oil supplies and deceleration in world economic growth leading to the decline in world oil consumption. Despite a decline in crude oil price on the international market, Zimbabwe hiked fuel prices on 12 January 2019 from an average of USD1.34 to USD3.11 for diesel and 1.38 to USD3.31 for petrol. The increase translates to about 139.9 percent and 132.1 percent increase for petrol and diesel respectively. The domestic price hike was mainly due to the increase in excise duty of fuel to about USD 2 per litre.

Maize and wheat prices increased by 12.4 percent and 20.3 percent to USD167.44 and USD214.54 per metric tonne, respectively in December 2018. Maize price increased due to more utilization and lower expected production in Russia and United States of America while wheat price declined on the back of reduced exports and expectations of lower production in Russia and Turkey. The increase in maize and wheat price implies a higher import bill for these commodities for Zimbabwe, and raises the need for the country to come up with strategies to increase production of these commodities to save foreign currency.
On the agriculture sector, farmers increasingly expressed their interest to grow tobacco in the current 2018/19 agricultural season as evidenced by a 48 percent growth in the number of farmers who registered to grow tobacco reaching 167,538 as at 27 December 2018. The total planted area slightly increased by 7.4 percent from the 74,238 hectares that was planted over the same period in 2017. The mining sector on the other hand registered a phenomenal growth in gold deliveries to Fidelity Printers and Refineries, Zimbabwe’s gold buying centre. In 2018, gold deliveries reached a record high for the country, 33.29 tonnes, surpassing the year’s revised target of 33 tonnes. Small scale miners contributed about 65.1 percent of deliveries. The buoyance of the gold sector is expected to continue in the short to medium term with gold production expected to reach 100 tonnes a year by 2030.

The manufacturing sector is struggling following the closure of some of the manufacturing giants such as Olivine Industries, Capri Zimbabwe and Surface Wilmar due to failure to access foreign currency to procure raw materials. The 2018 Confederation of Zimbabwe Industries (CZI) Manufacturing Sector Survey also shows that over the period September 2017 and August 2018, capacity utilization in the manufacturing sector increased marginally by 3.1 percentage points (about 6.9 percent) to 48.2 percent. This means that, on average, more than 50 percent plant capacity is lying idle; hence it is difficult for the manufacturing sector to enjoy economies of scale advantages as the plants are operating at levels where they are facing higher production costs per unit. In addition, only 16 percent of the firms are using equipment that is five years of age and below hence the sector is not likely to recover significantly in 2019 owing to use of old equipment. In terms of access to credit, a large chunk of credit is extended to individuals as opposed to mining and manufacturing firms, an indicator that resources are extended to consumptive purposes as opposed to availing credit to productive sectors of the economy.

Total cumulative government revenue to November 2018 stood at USD 4.66 billion exceeding targeted revenue for the period by 14.6 percent. However, cumulative total expenditure to November 2018 stood at USD 7.76 billion exceeding its target of USD 4.88 billion by a variance of 59 percent. The deficit was financed primarily by domestic sources which include Treasury Bills, loans and accumulation of arrears which may continue to drive accumulation of domestic debt at a time where external debt is already high and unsustainable.

The Zimbabwe Stock Exchange closed the year on high note. The industrial and mining indices closed the year trading at 487.13 and 227.71 respectively, a 46.3 percent and 59.9 percent increase compared to the last day trading performance in 2017. Much of the stock market activities took place in the third and fourth quarters of 2018 as these accounted for 41.13 percent and 24.40 percent respectively of the traded number of shares and also accounted for 24.97 percent and 40.18 percent of traded turnover value in 2018.
Despite the increase in exports by 15.5 percent to USD3.7 billion over the 10 month period from February to November 2018 compared to the same period in 2017, imports increased by a huge margin, 27 percent, to about USD 5.8 billion during the same period. This implies foreign currency generated from exports is not sufficient to meet the demand for imports. The trade deficit constitutes about 58 percent of exports, a level which is too high hence significant measures need to be undertaken to increase exports or reduce imports. Given the inability of the local industry to increase production to meet demand, the trade deficit is more likely to widen than narrowing in the foreseeable future.

2. REGIONAL ECONOMIC DEVELOPMENTS

2.1 Regional inflation Developments

Within the Southern Africa region Zimbabwe recorded the highest inflation rate of 42.09 percent in the month of December 2018 followed by Angola at 18.6 percent. Mauritius and Tanzania continued to record the lower inflation in the region of 1.8 percent and 3.3 percent respectively. Between January and December 2018, Zimbabwe’s inflation rose from 3.52 percent to 42.09 percent whilst Angola, which had the second highest inflation rate saw inflation receding from 22.72 percent in January to 18.6 percent in December. The majority of countries within the Southern Africa Development Community (SADC) region managed to maintain inflation levels below 10 percent (Figure 1).

Figure 1: Trend in Inflation rates within SADC

Source: Trading Economics

2.2 Regional integration and trade negotiations

Towards the African Continental Free Trade Area: Where are we?

African Union (AU) Trade Ministers held their seventh meeting on 12-13 December 2018 in Egypt to agree on market access and rules of origin as well as to chart a roadmap for finalisation of outstanding work on the African
Continental Free Trade Area (AfCFTA) negotiations; among other issues. This move is indeed a step towards the integration and establishment of a single African market of over 1.2 billion people with a combined gross domestic product (GDP) of approximately USD3.3 trillion with the AfCFTA.

On market access, Member States agreed to gradually liberalize 90 percent of traded goods through a linear approach on tariff reductions over varying transition periods depending on a Member State’s level of economic development. Developing countries like Zimbabwe would liberalize their tariffs over 5 years while least developed countries would do so over 10 to 13 years and small group of countries possibly over 15 years. Member States further agreed that 7 percent of product lines will be sensitive products, with much longer liberalisation transition periods. The remaining 3 percent of the product lines will be excluded from liberalization and are to account for no more than 10 percent of the value of imports from other African countries. Submission of the negotiated market access offers are expected for adoption by January 2020. On rules of origin, the Ministers of Trade agreed to give a six-month extension to negotiators to finalise and agree on a package that should be submitted by June 2019.

Six African Union (AU) Member States have not signed the Agreement that was endorsed by their counterparts on 21 March 2018 in Rwanda. At the time of the meeting, 13 Member States had ratified the Agreement and nine more were required for it to enter into force. It is envisaged that the Agreement will be formally launched at the forthcoming AU summit in February 2019.

Negotiations of the AfCFTA are in two phases. Phase I consists of liberalising trade in goods and services and complying with the Protocol on Dispute Settlement. It is only after the ratification of the Agreement that outcome of Phase I would be implemented. Submission of the negotiated market access offers on services is expected for adoption by Member States by January 2020. Phase II relates to negotiation on intellectual property rights; competition policy and investments. The African Union Trade Ministers agreed on the following road map for Phase II of the negotiations:

- Conduction of situational analysis studies on Phase II issues by April 2019.
- Completion of Phase II of the AfCFTA negotiations by June 2020.

As a signatory of the AfCFTA, Zimbabwe needs to prioritise both public and private sectors capacity building on the regulatory framework of the AfCFTA to better understand how it will be implemented. Further, it needs to gear up on its
industrial performance given the prolonged economic challenges as well as identifying regional value chains on which to ride in order to push its trade in goods on the African continent.

3. COMMODITIES PRICES IMPACTING ZIMBABWE

Precious metals

Gold price declined by 1.1 percent to USD1250.40 in December 2018 from USD1264.45 per troy ounce in December 2017 (Figure 2). Similarly, platinum price declined by 12.8 percent over the same period to USD791.16 per troy ounce mainly due to a supply surplus in the market. The hike in the United States Federal Reserve interest rates from 2.25 percent to 2.5 percent in December 2018 and the strengthening of the US dollar in the same month increased the opportunity cost of holding gold, making interest bearing assets and the US dollar attractive to investors.

Figure 2: Gold and Platinum prices in December 2018

Crude oil

The average crude oil price decreased by 11.8 percent from USD61.19 per barrel in December 2017 to USD53.96 in December 2018 (Figure 3) despite an agreement in December 2018 by OPEC members to cut production by 1.2 million barrels per day from the October 2018 levels. Some of the factors accounting for the decrease in oil prices were the record high crude oil production levels by Russia and Saudi Arabia and deceleration in world
economic growth leading to the decline in world oil consumption. Increases in US crude oil supplies also dampened prices.

**Figure 3: Average crude oil price in December 2018**

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

**Wheat and maize**

The average wheat price increased by 20.3 percent in December 2018 up from USD178.29 per metric tonne in December 2017 on the back of reduced exports and expectations of lower production in Russia and Turkey (Figure 4). Maize price increased by 12.4 percent to USD167.44 in December 2018 form USD148.98 in December 2017, partly due to the increase in utilization and lower expected production in Russia and United States of America. The increase in wheat and maize price implies a higher import bill for these commodities for Zimbabwe, and raises the need for the country to come up with strategies to increase production of these commodities to save foreign currency.

**Figure 4: Maize and wheat in December 2018**

![Graph showing maize and wheat prices from 2013 to 2018.](source: World Bank, December 2018)

**HIGHLIGHTS**

Prices of maize and wheat rose significantly from 2017 prices. The increase in wheat and maize price implies a higher import bill for these commodities for Zimbabwe, and raises the need for the country to come up with strategies to increase production of these commodities to save foreign currency.
4. REAL SECTOR DEVELOPMENTS
4.1 Agriculture

Tobacco

Farmers increasingly expressed their interest to grow tobacco in the current 2018/19 agricultural season as shown by the growth in the number of registrations to do so. Statistics reveal a 48 percent increase in the number of farmers who registered to grow tobacco reaching 167,538 as at 27 December 2018. About 56.65 percent of these were communal farmers while 32.6 percent were A1 with the rest being A2 and small scale commercial farmers (Figure 5). Of those that have registered to grow tobacco, 40,612 were new farmers, translating to about 24.2 percent of those who registered.

Figure 5: Tobacco farming Registration for 2018/9 agricultural season by farmers’ category

![Bar chart showing tobacco farming registration by farmers' category]

Source: Tobacco Industry and Marketing Board

Tobacco is grown under irrigated and dry land. A total of 79,708 hectares had been planted with about 26.8 percent under irrigation. The total planted area slightly increased by 7.4 percent from the 74,238 hectares that had been planted over the same period last year. Tobacco export earnings had reached US 892.3 million as at 27 December 2018 selling at an average USD4.85/kg. This represented a marginal decline of 1.34 percent from the corresponding period of 2017 that had attracted a relatively higher price of USD 4.96/kg.

Maize, Wheat and Food security status

As at 3 December 2018, the country had a maize stock of 1,179,756 tonnes and a corresponding stock of 135,935 tonnes in small grain. The maize stock available is twice the country’s grain reserve requirement of half a million
tonnes. Thus, the grain stock is adequate for 9 months. Wheat stock is way below the national requirement of 450,000 tonnes. Wheat stock was 119,794 tonnes. The country is a perennial importer of wheat and its availability has recently been erratic owing to foreign currency shortages. Wheat currently produced is not suitable for making bread, a staple food for most urban families. A sustainable approach to local wheat production is imperative including the need to produce a quality demanded by bakeries when making bread.

Zimbabwe has been recording frequent droughts resulting in crop failure, livestock and wildlife deaths. The country has therefore been experiencing a good season once every four to five years. Climate change reality calls for sustainable measures for mitigation and adaptation. While efforts have been made on research and development to produce drought tolerant seed, early warning information system and drought monitoring, a lot of work remains on irrigation rehabilitation, development and expansion. Government’s plans are to develop 200 hectares of irrigation per district but constrained by financial capacity to do so. It is imperative for farmers to adopt climate change resilient strategies which include water harvesting; harvesting and storing livestock forage and staggered planting among others.

4.2 Mining

In 2018, gold deliveries to Fidelity Printers and Refiners reached 33.29 tonnes, a record high for the country that surpassed the year’s revised target of 33 tonnes (Figure 6). This translates to about 34 percent increase in deliveries from 24.8 tonnes delivered in 2017. Notably, small scale miners contributed about 65.1 percent of deliveries in 2018 with primary producers contributing the remainder. Deliveries of gold by small scale miners increased by 64.5 percent to about 21.7 tonnes in 2018 from 13.2 tonnes in 2017. Primary producers registered a slight decline of about 0.5 percent to 11.61 tonnes from 11.67 tonnes during the same period. Despite the sector facing some challenges which include the 30 percent surrender requirements which is now acting as an inflation tax, gold deliveries to Fidelity Printers and Refiners are expected to continue to grow in the short to medium term. The marked increases in gold deliveries comes as the Government and Reserve Bank of Zimbabwe’s led stakeholder efforts to upscale production begin to bear fruit.

The Transitional Stabilisation Programme 2018 – 2020 projected gold production of 100 tonnes per year by 2030. This is attributed to the expected growth of the sector due to the expansion of the gold support facility to benefit primary producers as well, since the programme was only accessible to small scale miners. The reopening of closed gold mines is also expected to boost the country’s gold production. However, the price of gold continues to be depressed on the international market, which then affects the profitability of local gold
producers, hence the need to fast track beneficiation and value addition of the mineral to hedge against volatile price fluctuations on the international market.

**Figure 6: Gold Deliveries, January 2015 – December 2018**

Source: Fidelity Printers and Refineries 2019

**4.3 Manufacturing**

The operating environment did not start on a promising note for the manufacturing sector in Zimbabwe in 2019. In January 2019, Olivine Industries issued a statement to the effect that they were stopping all operations after struggling to reopen in 2019. The decision was attributed to failure to source raw materials due to foreign currency challenges. Capri Zimbabwe, a refrigerator manufacturing company, also indicated that it had ceased operations in November 2018 due to viability challenges, which were also attributed to foreign currency shortages and competition with imports. Surface Wilmar, a cooking oil manufacturer, also indicated that it had closed operations due to failure to access foreign currency to procure raw materials (crude cooking oil).

The challenges that the manufacturing industry is facing also came to the surface following the release of the 2018 CZI Manufacturing Sector Survey. The survey shows that over the period September 2017 and August 2018, capacity utilization in the manufacturing sector increased by 3.1 percentage points (about 6.9 percent) to 48.2 percent. This means that, on average, more than 50 percent plant capacity is lying idle; hence it is difficult for the manufacturing sector to enjoy economies of scale advantages as the plants are operating at levels where they are facing higher production costs per unit. Only three manufacturing subsectors, namely Foodstuffs; Drinks, Tobacco and Beverages; and the Wood and Furniture have average capacity utilization of above 50 percent. The transport and equipment subsector is the least active, utilizing only 10 percent of available capacity.
The 6.9 percentage increase in capacity utilization resulted in an increase in output of about 12.1 percent between September 2017 and August 2018. The increase in overall capacity utilization is attributed to the protectionist regime that was in place before October 2018 when it was relaxed due to shortages that had been experienced in the country. However, following the opening up that was done in October 2018, the survey notes that overall capacity utilization fell by 6.2 percentage points to 42 percent. This reinforces the fact that failure to adequately utilize plant capacity makes Zimbabwe manufacturing firms very vulnerable to import competition.

The CZI survey results as well as the company closures being witnessed generally show that the manufacturing sector in Zimbabwe is experiencing challenges mainly centred on two intertwined problems; foreign currency challenges for raw material procurement and the general failure to adequately utilize existing plants. Therefore business models that are not based on overreliance on imports for raw materials but are vertically integrated with downstream local industries stand a better chance in this operating environment. This underlines the importance of strengthening local value chains, especially linkages with the agriculture and mining sectors as the suppliers of critical raw materials. The survey report shows that reliance on locally produced raw materials has been decreasing since 2016. In 2016, about 84 percent of the raw materials used in manufacturing were locally produced. This decreased to 64 percent in 2017 before declining further to 52 percent in 2018. This trend is contrary to the policy thrust that was being pronounced in the budget statements, which tried to promote local value chains. The continued use of imported products is coming at a time when the survey report also shows that only 16 percent of the firms are using equipment that is five years of age and below. Thus, the sector is not likely to recover significantly in 2019 owing to use of old equipment.

5. FISCAL POLICY

Revenue Outturn
Total cumulative government revenue to November 2018 stood at USD 4.66 billion exceeding targeted revenue for the period by 14.6 percent. On a year on year basis total revenue surpassed its performance in a comparable period in 2017 by 33 percent. Taxes on incomes and profits, Value Added Tax (VAT) and Excise duties accounted for 35.3 percent, 27 percent and 17.8 percent respectively of collected revenue (Figure 7b). Collection of other indirect taxes, customs duties and taxes on income and profits exceeded their performances in a comparable period in 2017 by 80.2 percent, 43.5 percent and 36.6 percent respectively (Figure 6a). The growth in indirect taxes was buoyed by the revision of the Intermediated Money Transfer Tax from 5 cents per transaction to 2 cents.
per dollar whilst customs duties were buoyed by the suspension of import restrictions on previously restricted import goods.

**Figure 7: Trend in revenue performance, January to November 2018**

<table>
<thead>
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<th>Tax Revenue</th>
<th>USD billion</th>
</tr>
</thead>
<tbody>
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</tr>
<tr>
<td>Tax on Income and Profits</td>
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<tr>
<td>Value Added Tax</td>
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<tr>
<td>Excise duties</td>
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<tr>
<td>Customs duties</td>
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<tr>
<td>Non-tax Revenue</td>
<td>0.14</td>
</tr>
<tr>
<td>Other indirect taxes</td>
<td>0.97</td>
</tr>
</tbody>
</table>

**Source:** Ministry of Finance and Economic Development

**Box 1: Assessing the performance of 2 percent Intermediated Money Transfer (IMT) Tax**

The 2 percent IMT tax announced by the Minister of Finance in the month of October 2018 have yielded desired results for the government of Zimbabwe’s revenue mobilisation drive. Collection of Other indirect taxes which have average USD 17.84 million per month between the period January 2018 and October 2018 rose by more than 300 percent in the month of November to USD 78.48 million buoyed by the revision of the Intermediated Tax from 5 cents per transaction to 2 cents per dollar.

**Expenditure Outturn**

Cumulative total expenditure to November 2018 stood at USD 7.76 billion exceeding its target of USD 4.68 billion by a variance of 58.95 percent. On a year on year basis expenditure grew by 32.2 percent from USD 5.87 billion recorded in a comparable period in 2017. The growth in government expenditure was driven by increases in capital expenditure and net lending and interest payments whilst expenditure on operational costs declined (Figure 8a). Employment cost accounted for the large part of government expenditure.

**HIGHLIGHTS**

The resultant cumulative revenue performance to November 2018 of USD 4.66 billion could not match total government expenditure requirements of USD 7.76 billion, resulting in a cumulative budget deficit of USD 3.096 billion against a target of USD 812.87 million. The deficit was financed primarily by domestic sources which include Treasury Bills, loans and accumulation of arrears.
accounting for 46.1 percent followed by capital expenditure and net lending (39.3 percent) (Figure 7b). The decline in share of government expenditure on operations and maintenance shows that the civil service is not being equipped with requisite resources to discharge its duty hence compromising on public service delivery.¹

Figure 8: Expenditure performance January to November 2018

The resultant cumulative revenue performance to November 2018 of USD 4.66 billion could not match total government expenditure requirements of USD 7.76 billion, resulting in a cumulative budget deficit of USD 3.096 billion against a target of USD 812.87 million. The deficit was financed primarily by domestic sources which include Treasury Bills, loans and accumulation of arrears.

6. FINANCIAL AND MONETARY SECTOR

6.1 Stock Market Development

The Zimbabwe Stock Exchange closed the year on high note following a year filled with a number of events. The industrial and mining indices closed the year trading at 487.13 and 227.71 respectively, a 46.3 percent and 59.9 percent increase compared to the last day trading performance in 2017. The All Share and Top 10 indices closed the year trading at 146.24 and 145.02 respectively (Figure 9).

A total of 2.517 billion shares valued at USD 926 million were traded in the year 2018. Turnover value increased by 33.3 percent whist turnover volume declined

¹Doctors down tools; Newsday; 3 December, 2018; https://www.newsday.co.zw/2018/12/doctors-down-tools/
by 28.8 percent from their levels in 2017. The increase in turnover value and decline in volume shows that stocks were being traded at a premium in 2018 and 2017 as investors sought safe havens for their funds as the economic outlook deteriorated.

**Figure 9: Trend in Zimbabwe Stock Exchange Indices 2017 to 2018**

Much of the stock market activities took place in the third and fourth quarters of 2018 as these accounted for 41.13 percent and 24.40 percent respectively of the traded number of shares and also accounted for 24.97 percent and 40.18 percent of traded turnover value in 2018. The increase in stock market activities in Q3 and Q4 of 2018 was attributed to speculative driven activities around the outcome of the 2018 Harmonized elections held in July as well as increased uncertainty with regards to the performance of the economy.

**Regional Stock market developments**

In the month of December 2018, the Zimbabwe Stock Exchange industrial index was among the worst performing indices in selected regional stock exchanges having lost 9.57 percent. This was followed by the Nairobi Stock Exchange All Share Index and Botswana Stock Exchange DFS index which lost 3.87 percent and 1.09 percent, respectively. The best performing indices were the Johannesburg Stock All Share Index and Nairobi Stock Exchange NSE 20 which gained 4.09 percent and 1.30 percent respectively in the month of December 2018.

**6.2 Interest rates**

The commercial bank weighted average lending rates for corporates increased by 32 basis points to 7.38 percent in October 2018, while individual lending rates declined by 19 basis points to 9.47 percent in October 2018 over the same period (Figure 10). Going
forward the interest rates are likely to rise to take into account rising inflation which spiked from 5.4 percent in September 2018 to 20.9 percent in October 2018 and 42 percent in December 2018.

Figure 10: Commercial bank weighted lending interest rates and loan-to-deposit ratio

![Graph showing lending rates and bank loan-to-deposit ratio]

Source: Reserve Bank of Zimbabwe

Although lending rates have generally been going down, banks have not increased lending, with the loan-to-deposit ratio declining from 49.7 percent in December 2016 to 26.6 percent in October 2018. The loan-to-deposit ratio is well below the benchmark of 70 percent, meaning that banks have the capacity to lend but might not do so due controlled interest rates that do not adequately compensate for risk and cost of funds, as well as the transitory nature of the deposits which increases the risk of lending over the medium to long term.

6.3 Monetary developments

Money supply as at end of October 2018 increased by 30.96 percent from USD7.68 billion in October 2017 to USD10.06 billion in October 2018, mainly driven by the growth in domestic credit.

Total domestic credit stood at USD14.4 billion at the end of October 2018, with most of it attributed to the central government (65.8 percent) and other government agencies – Figure 11. During the period when the government followed cash budgeting, it only spent what it collected, and it had less domestic debt but the economy was more stable, growing relatively faster with more crowding out of the private sector.
Figure 11: Distribution of domestic credit, October 2018

Source: Reserve Bank of Zimbabwe

The outstanding credit to the private sector as at end of October was USD4.0 billion, of which USD2.54 billion was extended as loans and advances with individuals getting the largest share of 26.8 percent, far ahead of productive sectors such as mining and manufacturing (Figure 12). This implies that there are some incentive structures, which need to be identified and dealt with, that encourage lending to individuals which is mainly perceived to be consumptive.

Figure 12: Distribution of sectoral loans and advances

Source: Reserve Bank of Zimbabwe, October 2018
6.4 Inflation

Annual inflation continues to break new records after reaching a new high of 42.09 percent in the month of December 2018 after gaining 11.08 percentage points from 31.01 percent recorded in the month of November 2018. The major driver of annual inflation were prices of non-food items which grew by 36.48 percent from 25.4 percent in November 2018 and accounted for 24.25 percent of the weighted change in the consumer price index.

Month on month inflation shed 0.17 percentage points from 9.20 percent recorded in the month of November 2018 to 9.03 percent in the month of December 2018. Following the surge in month on month inflation in October 2018, there are indications of a slowdown in the growth of month on month inflation the unofficial exchange rate between the USD dollar and the bond notes and electronic balances stabilized in December (Figure 13).

**Figure 13: Trend in Inflation, January 2017-December 2018**

Annual and month on month inflation which opened the year at 3.52 percent and 0.30 percent respectively surged in the second half of the year following a spate of price increases in the aftermath of the 2018 Harmonized Elections. The upward trend in inflation assumed a two digit trajectory in the month of October 2018 following a surge in prices driven by speculation around resolving the currency issue.

Between the period December 2017 and December 2018 a number of consumer goods witnessed high increases above the average for all consumer goods and these are clothing and footwear (81.5 percent), Recreation and culture (60.5 percent), Furniture, household equipment and maintenance (57.1 percent) and Transport (56.5 percent). On the other hand Health (30.8 percent), Alcoholic beverage and
tobacco (30.2 percent), Education (8.2 percent) and Communication (1.6 percent) experienced price changes below the average for all items inflation (Figure 14).

**Figure 14: Percentage Change in prices (December 2017 to December 2018)**

![Figure 14: Percentage Change in prices (December 2017 to December 2018)](image_url)

Source: ZIMSTAT

### 7. EXTERNAL SECTOR AND DEBT

#### 7.1 Exports, imports and balances

Official statistics from ZIMSTAT show that total Zimbabwe exports over the 10 month period from February to November 2018 were about USD3.7 billion, having increased by about 15.5 percent compared to the same period in 2017. Imports over the same period increased significantly by about 27 percent to about USD 5.8 billion. This implies that while there are some incentives that have been put in place to increase exports, the foreign currency generated from exports is not sufficient to meet the demand for imports. As a result, the trade deficit increased by about 53.7 percent to USD2.1 billion. The trade deficit, which constitutes about 58 percent of exports, is too high as it underlines that significant measures are needed to increase exports or reduce imports.

In response to shortages of basic products which arose as a result of speculative activities, government eased its import control measures to allow importation of basic goods through Statutory Instrument 237A of 2018 which was officially gazetted on 29 October 2018. The import trends show that in November 2018, imports increased by about 27 percent compared to October 2018. In 2017, imports had only increased by about 7 percent between October and November, which implies that this increase can be attributed to the effects of the removal of the import restrictions. Given the inability of the local industry to increase production to meet demand, the trade deficit is more likely to widen than narrowing in the foreseeable future.
The statistics over the same period also show that South Africa (SA) remains Zimbabwe’s main trading partner, accounting for about 51 percent of exports and 40 percent of imports. Thus, the strengthening of the USD against the Rand, which was witnessed over the period under review, would be expected to have an influence in the manner in which import and export decision are made in Zimbabwe. Exporters would be expected to become less willing to export to SA and get a low value currency, while importers would utilize the opportunity by increasing imports from SA.

However, a graphical presentation of the movement of the exchange rate between the USD and Rand and trends in Zimbabwe’s trade with South Africa over the period February to November 2018 and 2017 (Figure 15) does not show the exchange rate influence. The data shows a positive correlation coefficient of about 0.49 between the exchange rate movement and exports, which implies that as the exchange rate increases (depreciation), more exports were observed. At the same time, a negative correlation coefficient of about 0.39 is obtained between the exchange rate movement and imports. This could reflect that exports into South Africa are mostly driven by market access objectives rather than foreign exchange decisions, especially given that it is mainly mineral exports which are denominated in USD that are exported through South Africa. The negative correlation with imports generally shows that it is mainly tariff measures introduced to control imports that play a larger role in directing trade than the exchange rate effects.

Figure 15: Rand/USD exchange rate movements and Zimbabwe trade with South Africa, Feb-Nov 2017 and 2018

Source: ZIMSTAT and OFX Group Ltd2 (for exchange rate)

7.2 Debt developments

Zimbabwe intends to repay about USD2.2 billion mainly to the African Development Bank and the World Bank, which is part of the USD7.4 billion external debt. This was conveyed by the Minister of Finance and Economic Development during meetings held in Davos, Switzerland in January 2019. If this amount is repaid as promised, it will send positive signals to the international community that indeed Zimbabwe is ready to clear the arrears on debt and open new lines of credit for the struggling industry which is operating at low capacity utilisation owing to a number of challenges which include limited foreign currency access.

7.3. Tourism performance

Zimbabwe recorded a total of 2,579,974 tourist arrivals in 2018 representing a growth of 6% to the tourists received in 2017. This growth is in part explained by the warming up of the international community following the ushering in of the new dispensation. Further, increased travel was also noted during the build-up to the elections from the 2nd quarter. Much of the recorded growth emanated from Asia and Ocean markets that grew by 23 percent and 6 percent respectively. Africa remained the major source market representing 80 percent of the arrivals in 2018.

Preliminary statistics reveal that a similar trend was also recorded in international tourist receipts where Zimbabwe realised a 7 percent growth from USD 983.9 million in 2017 to USD 1.05 billion in 2018. According to Zimbabwe Tourism Authority (ZTA), this amount only reflects the sector’s direct contribution to the economy. The country’s capacity to account for the indirect contribution is still limited owing to the absence of a Tourism Satellite Account. Domestic tourism was estimated to have generated about $335 million in 2018.

The sector has seen investment growth in the form of greenfield investments, expansion, refurbishment and modernization of existing operations. Such activities were facilitated by policy incentives such as duty rebates for capital goods and safari vehicles provided for through Statutory Instruments 10 of 2018 and 159 of 2017 respectively. Within the tourism development zones Statutory Instrument 50 of 2006 enabled tourism operators to be awarded rebate on duty of specified items as well as other tax incentives. The sector also benefited from a USD 15 million facilities although its uptake was reported to be quite low owing to restrictive conditions. According to ZTA, preliminary estimates show that nearly USD100 million was invested across various sub-sectors of the tourism sector largely by small to medium scale operators. These were in accommodation, houseboats, restaurants and car rentals.
Sectoral performance is very sensitive to political stability of the country. Zimbabwe should therefore strive to uphold its tourist destination image of being safe. Further, given the technological developments in other destinations, Zimbabwe should not be left out but invest in ICT to promote not only digital marketing but to be able to account more accurately for the total economic contribution of the tourism sector.

8. TOPICAL/THEMATIC ISSUES

8.1. Hiking of Price of Fuel on the Local Market

On 12 January 2019, the Government of Zimbabwe reviewed fuel pump prices to USD3.31 and USD3.11 for petrol and diesel from an average of US1.38 and USD1.34 recommended by Zimbabwe Energy Regulatory Authority (ZERA) in December 2018. The increase translates to about 139.9 percent and 132.1 percent increase for petrol and diesel respectively, despite the decline in crude oil on the international market. The price hike was due to the increase in excise duty of fuel to about USD2 per litre, a tax which is almost two thirds of the price of fuel. The price hike came at a time when the economy was facing fuel shortages throughout the country. Cognizant of the need to prevent generalized price increases for goods and services following the fuel price adjustments, the Government decided to provide relief through refund of excise duty on fuel consumed by registered businesses in selected sectors of the economy namely, manufacturing, mining, agriculture, and transport. The relief constitutes the difference between the prevailing rates of excise duty and the rates that were applicable prior to this change. The companies that should benefit from the refund should further satisfy conditions set by the Government which include the following:

- The prices of goods and services by beneficiaries should have not increased relative the latest change in the price of fuel;
- The beneficiaries should be registered and compliant for tax purposes;
- Beneficiaries should be members of recognized business associations; and,
- Beneficiaries should provide evidence of the productive use of the fuel.

Despite the move by Government to curb rampant price increase through the excise duty refund framework under the price increase under the Statutory Instrument 9 of 2019, the refund is normally paid on a quarterly basis introducing a lag to having access to the much-needed income which may be required for working capital.
to increase their prices to maintain their profitability. This means the final consumers will bear the cost of increase, which further reduce the disposable income of ordinary people.

8.2. Updates from Davos and Implications for Zimbabwe

World leaders gathered in Davos, Switzerland for the World Economic Forum between 21 and 26 January 2019 to discuss and chart a way forward on some of the world’s most pressing environmental, socio-economic and political problems. The greatest concern expressed by the leaders is the fact that global risks are not only rising and are interconnected but that the responses are fragmented.

Some of these risks include but not limited to the following:

- Trade tensions that are essentially a political problem;
- Debt that is much higher than in the last financial crisis, thereby limiting governments capacity to respond to any potential emerging crisis, and to implement the projects necessary to achieve the sustainable development goals;
- General instability in financial markets and declining public confidence;
- Climate change risk whose reality is proving to be worse than scientists had foreseen;
- Increased levels of inequality despite the improvements and related technological progress that globalization has ushered in. This inequality is evident at individual; sectoral and regional levels thereby leading to a sense of frustration among the disadvantaged segments of the society. That frustration has been identified as one of the factors explaining the reduced public confidence and their trust in governments, political establishments, and in international organisations. This has further complicated the ability of world leaders to craft effective strategies in dealing with the economic problems.
- Multiplication of conflicts that are more related to a threat of global terrorism yet being addressed in a fragmented approach.

Some of the proposed solutions

- Addressing these global challenges requires global responses, and organised in a multilateral way. Some of the global responses include international collaboration in resolving the global trading system; fighting corruption and tax evasion; as well as addressing the glaring threat of climate change.
- Countries need to harness the existing growth momentum to create more policy room to act. They need to create a policy environment that allows the economies to be resilient to the shocks. Further, it is imperative for
governments to reduce high government debts; follow a monetary policy that is evidence based; develop policy tools that promote financial stability; as well as implement economic reforms that promote economic growth particularly in the labour markets and infrastructure investment

**Implications to Zimbabwe**

- Zimbabwe faces constrained fiscal space and is aggressively courting the international community to fund its development needs. Challenges in the global financial markets, however, point to the need to be more inward looking in terms of sourcing financial resources to fund development needs if the country is to be an upper middle income country by 2030.
- The economic reform agenda being pursued by government needs to be expedited as this will address some of the key challenges related to the huge debt overhang and macroeconomic instability thereby creating an environment conducive for economic growth and prosperity.
- The reality of climate change as evidenced by frequent droughts and the level of food insecurity of the country requires Zimbabwe to step up its efforts to adopt more sustainable options in climate change mitigation and adaptation.

**9. CONCLUSION**

The key issues that the GOZ should aim at addressing include:
- Restoration of macroeconomic stability while making the response humane and socially responsive to the needs of the people;
- Enhance efforts to address 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.

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