1. Introduction

The government revenues continue declining on the back of a shrinking economy and government expenditure heavily skewed towards recurrent expenditure. While, money supply is increasing, demand deposits are dominating but are not suitable for infrastructure financing that require long term funding. Inflation remains negative reflecting declining aggregate demand and strengthening US$. The Banking sector is set to face its real test as the new measures regarding utilisation of foreign currency take effect and as the much hyped bond notes are introduced. The interest rates continue facing downward pressure as industry continue struggling.

2. World Economy

2.1 Overview of World Economy and Growth Prospects

African countries continued to be ranked low in their policy environment according to the World Bank, as seven countries registered improvements while 12 registered decline in the ranking of the Country Policy and Institutional Assessment (CPIA).[1] The CPIA score is also used to determine the allocation of financing under the International Development Association fund (IDA). SSA's score remained at 3.2 in 2016 and Rwanda led in the scores with a score of 4. Zimbabwe is among the seven countries ratings on important institutions that matter for investment improved[2]. Zimbabwe's CPIA score went up from 2.2 in 2012 to 2.9 in 2015 thanks to better availability of data and information coupled with implementation of economic policies under the International Monetary Fund (IMF) staff-monitored program (World Bank, 2016).

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[1]http://www.worldbank.org/en/news/press-release/2016/06/28/african-countries-show-mixed-results-in-quality-of-policies-and-institutions

[2] http://www.worldbank.org/en/region/afr/publication/development-policies-institutions-improve-in-few-african-countries

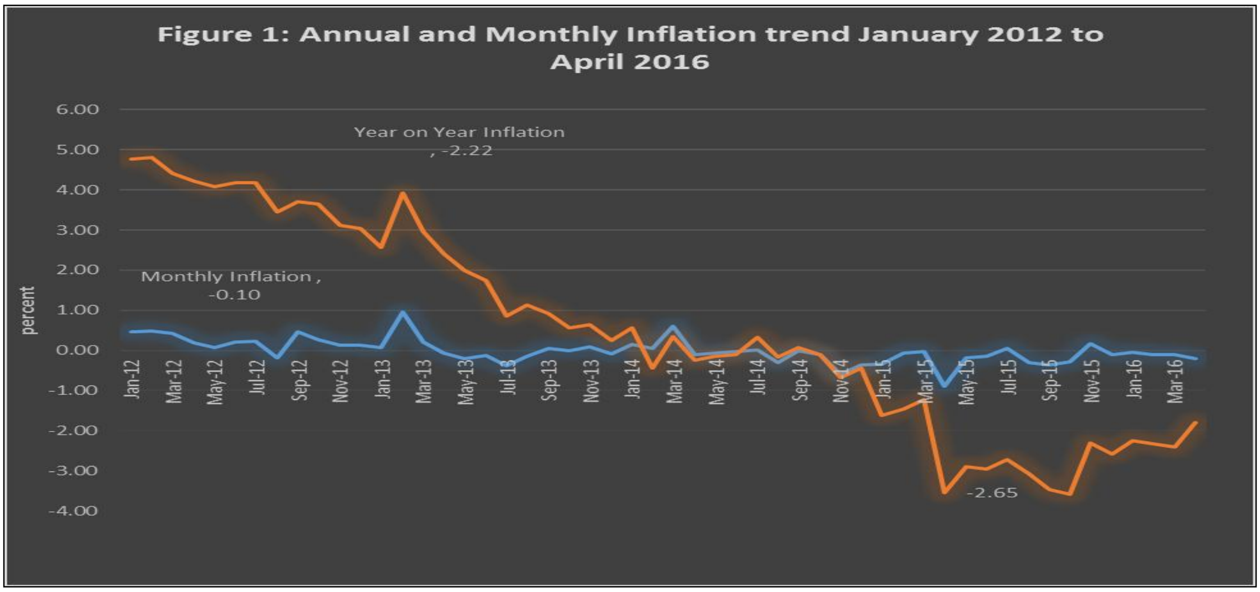
Global economic growth is expected to further slowdown from initial 2.9% 2016 growth projected to a revised 2.4% mainly due to slow growth in advanced economies, low international commodity prices, weak global trade and decreasing capital flows. The impact of economic slowdown has been greater on countries depending on primary exports than the net importers of primary products. Even though, the net exporters did not realise the expected gains from low commodity prices.

3. Marco-economic Developments

3.1 Government Revenue

By end of March 2016, total government revenue increased by 14.76% compared to February 2016, but declined by 6.03% compared to same month last year. Government VAT collections declined in March 2016 by 21.06% compared to the month of February 2016 and also declined by 13.67% compared to the same month last year. On a year to date basis, government revenue declined by 2.93% compared to the same period last year to reach US$ 808 356 223.16 by end of March 2016. The Governmment had incured a deficit of US$ 159 807 584 over the same period. ***The Government continues facing serious funding challenges as revenue lines are performing below expectations. If the trend continues the total government funding gap could reach US$ 639,230,334.40 by end of the year. While recurrent expenditure was US$ 956 491 103.76, capital expenditure was a paltry 11 672 703.00. Under these conditions of constrained resources, spending on infrastructure is curtailed and this remain an obstacle to sustainable economic growth.***

3.2 Inflation and Interest Rates



Decline in prices were witnessed in the following group items compared to last year April 2015: coffee, milk, cheese. eggs, oils and fats, fruits, tea and cocoa; wine; beer; clothing material; shoes and other footwear; actual rental for housing; gas; liquid fuels; domestic services and household services; hospital services; and spare parts and accessories for personal transport and equipment. The decline in prices is mainly supported by tight liquidity situation, competition from imports, strengthening US$, declining oil prices, declining aggregate demand due to low levels of formal employment and price correction. Among the few items that experienced year on year positive inflation include: education (14.21%); accommodation services (2.2%); postal services (11.11%); and tobacco (0.75%).

The developments in inflation are reflective of declining economy, with depressed aggregate demand and high levels of unemployment. In the obtaining economic environment housing sector generally is facing downward pressure including demand for the accommodation services. Low inflation implies that the country's interest rates should face down ward pressure as the authorities will naturally adopt accommodative policies. However, with lingering suspicion of return of a local currency, investors are likely to take refuge in properties.

Money supply increased by 3.1% from February 2016, to March 2016 to reach US$ 4916.8 million representing a 12.5% annual increase. Of the US$ 4.9 billion, of which 52% consist of demand deposits and base money, 14% savings deposits, 33% 30-day deposits and 1% time deposits. The deposits continue dominated by short term deposits which are not suitable for long term infrastructure projects. Nominal lending rates to individuals marginally increased from 11.41% as at 15 April 2016 to 11.49% as at 13 May 2016, while for corporate clients interest rates marginally increased from 7.28% to 7.36% over the same period.

Savings deposit rates were stable between 15 April 2016 to 13 May 2016, as savings deposits slightly remained at 3.30%, 1 month deposits decreased from 6.57 to 6.18%, and 3 months deposits increased from 7% to 7.06% respectively. *With the current liquidity challenges persisting, there is going to be pressure to increase deposit rates.*