Zimbabwe

2018

PRE-BUDGET STRATEGY PAPER

TREASURY

HARARE

25 September 2017

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FOREWORD

The 2018 Budget Strategy Paper is part of the 2018 Budget process and sets the tone for facilitating dialogue among stakeholders on the forthcoming 2018 National Budget.

For this purpose, it outlines macro-economic and fiscal objectives, targets and other projections, taking account of underlying macro-economic and fiscal assumptions.

Based on the outlined Macro-economic and Fiscal Framework for 2018-2020, the 2018 Budget Strategy Paper, therefore, provides key economic parameters on projected economic performance, and anticipated revenue outturns – critical for guidance on expenditure capacity.

The Budget Strategy Paper also highlights fiscal risks, envisaged to arise during implementation of the Budget and hence, require recognition and mitigatory preparedness and measures.

Overall, the Budget Strategy Paper seeks to achieve focussed and well thought-out Budget Proposals that address our economic challenges in a manner that is also responsive to the needs of the people.

Hon. P. A. Chinamasa (M.P.)
Minister of Finance and Economic Development

25 September 2017

INTRODUCTION

1. The 2018 Budget Strategy Paper sets a platform for discussing issues and priority interventions for the forthcoming 2018 National Budget, guided by the Zimbabwe Agenda for Sustainable Socio-Economic Transformation (Zim Asset) as succinctly pronounced in April 2016 by His Excellency the President in the Ten Point Plan.

2. In facilitating this process, the 2018 Budget Strategy Paper provides the broad Budget focal thrust, the respective macro and fiscal targets and projections for 2018 and the medium term.

3. Fundamental challenges facing the economy revolve around low productivity, domestic production levels across sectors, as well as market indiscipline, that way underpinning prevailing low liquidity and foreign exchange levels in the economy.

4. Central to resolving these challenges is addressing the mis-match between National Budget revenues and expenditures.

5. Also of concern is the inefficient use of public resources, poor and costly management of public projects across Government, Parastatals and Local Authorities.

6. Critical for the success of the 2018 National Budget are effective revenue mobilisation, prudent expenditure and debt management to

ensure that the Budget provides an effective fiscal stimulus to the economy.

7. The prevalent market indiscipline, coupled with corrupt practices, also needs to be addressed.

8. Accordingly, expenditure proposals by line Ministries, Departments, Public Enterprises, and Local Authorities should embrace guidance as input into the 2018 National Budget process.

2018 BUDGET FOCUS

9. In this regard, Cabinet has already provided the operative guidance over development of the necessary measures to address fundamental challenges besetting the economy.

10. Cognisant of these challenges, Cabinet at its 18th Meeting held on 13 June 2017, directed the adoption of a number of specific measures.

11. Drawing from the measures enunciated by Cabinet, it is critical that the 2018 National Budget be strengthened by adherence to fiscal discipline and the related anchors.

Fiscal Discipline

12. The 2018 National Budget should focus on restoring fiscal sustainability and discipline through institution of expenditure reduction measures as directed by Cabinet.

13. Therefore, as part of their input towards development of the 2018 National Budget, submissions from Ministries and Departments should contain sectoral specific proposals on cutting Budget expenditure costs.

14. In this regard, the rationalisation of public expenditures presents a further opportunity to curtail non-priority spending, thereby directing additional resources towards growth-enhancing Zim Asset infrastructure expenditures and improving the quality and coverage of public services.

15. Critical will be the containment of unproductive recurrent expenditures, central of which remains the Wage Bill.

16. This remains unsustainably high, notwithstanding monthly savings of US$10 million being realised following implementation of measures Government instituted from November 2015 as part of the ongoing Public Service Wage Bill Rationalisation exercise.

Fiscal Anchors

17. Consistent with our Budget focus, the 2018 National Budget embraces the principle of fiscal anchors geared towards containment of the Budget deficit, reducing the public debt to GDP ratio, limiting borrowing from the Central Bank, as well as increasing public investment in infrastructure.

Fiscal Deficit Targeting

18. In view of the widening fiscal imbalances, the 2018 National Budget submissions from Ministries and Departments should, therefore, inculcate fiscal consolidation to resolve challenges related to the unsustainable high fiscal deficit.

19. Accordingly, Cabinet directed that Treasury adopt deficit targeting, underpinned by rigorous monitoring of Budget implementation.

20. As directed by Cabinet, Treasury will focus on containment of the '*Budget Deficit'* as one of the key fiscal anchors.

21. An improved Budget position has a positive impact on expenditure and debt management, and creates fiscal space for funding development programmes, as well as attainment of overall macro-economic stability.

22. Since 2014, the level of the Budget deficit as a percentage of GDP has been on the increase, from 1.2% to a deficit of 8.7% and 8.4% in 2016 and 2017, respectively.

23. In the absence of strong measures targeted at containing expenditures and enhancing revenues, further deterioration of the budget deficit is likely to be sustained beyond 2018.

24. Consequently, the 2018 Budget Strategy Paper proposes targeting halving the Budget deficit to 4% of GDP, and subsequently move to a balanced Budget by 2020.

Budget Balance

Year	2014	2015	2016	2017	2018	2019	2020
Budget Balance as a % GDP	-1.2%	-0.8%	-8.7%	-8.4%	-4.0%	-1.6%	-0.4%
Budget Balance (US$ m)	-185.7	-124.7	-1 400.3	-1 410.2	-680.0	-303.9	-86.7

Source: Ministry of Finance and Economic Development

Debt to GDP Ratio

25. Section 11(2) of the Public Debt Management Act [Chapter 22:21] requires that the total outstanding Public and Publicly Guaranteed Debt as a ratio of GDP should not exceed 70% at the end of any fiscal year.

Debt to GDP Ratio

Year	2014	2015	2016	2017	2018	2019	2020
Debt to GDP Ratio	53%	58%	70%	78%	81%	78%	74%
Debt (US$ million)	8 421	9 339	11 257	13 120	14 093	14 600	14 871
GDP (US$ million)	15 834	16 072	16 149	16 819	17 460	18 732	20 198

Source: Ministry of Finance and Economic Development

26. By end of 2017, it is estimated that the Statutory limit of 70% is likely to be exceeded in view of the current borrowing trends from the domestic market. This underpins the urgency for containing the fiscal deficit.

27. This requirement is, however, far above the 60% SADC threshold, to which Zimbabwe assented to through ratification of the Finance and Investment Protocol.

28. Therefore, it is necessary that we gradually reduce the public debt to GDP ratio to levels consistent with the SADC regional best practice threshold of under 60%.

Limiting Government Borrowing from the Central Bank

29. Section 11(1) of the Reserve Bank Act [Chapter 22:15] requires that Central Bank lending to the State at any time shall not exceed 20% of previous year's Government revenues.

30. Notwithstanding the need for compliance with the stipulated threshold in 2014 and 2015, Reserve Bank lending thresholds to Government were surpassed in 2016 to reach 27%. This was largely on account of funding requirements for the importation of grain.

31. In the absence of sustained fiscal discipline and strong expenditure containment policy measures, the pointers are of a worsening position over the period 2018-2020.

Spending on Infrastructure

32. As part of the fiscal consolidation anchors, Cabinet directed that Government prudently manages expenditures in a manner that allows for the creation of adequate fiscal space for the re-orientation of National Budget resources towards development programmes.

33. Re-orientation of expenditures from consumptive spending to developmental priorities is a key tenet of Zim Asset.

34. Current capital Budget allocations of below 16% of the total Budget are far below best practice thresholds of close to 25%, required for promoting sustainable development.

Capital Budget

Year	2016	2017 Est	2018 Proj	2019 Proj	2020 Proj
Capital Budget (% of total Budget)	20	16	16	18	20
Capital Budget (US$ million)	967.5	835.5	730.0	850	1 000

Source: Ministry of Finance and Economic Development

35. Containment of consumptive expenditures is, therefore, critical for freeing resources towards capital investments, as well as achieving desirable deficit targets.

Legal Framework

36. Key to the restoration of fiscal sustainability and discipline is compliance and adherence to the Public Finance Management Act and Regulations.

37. In this regard, Treasury will be reviewing these legal frameworks to improve compliance with fiscal discipline.

Revenue Mobilisation

38. There is much potential for increased revenue collection through interventions that improve tax administration efficiency, curb leakages that result from smuggling and other vices.

39. Budget submissions should, hence, also consider sector specific measures to generate additional revenues across Government.

Public Enterprises

40. In addition, the Budget should be underpinned by deep State Enterprise and Parastatal reforms to stem the drain on the fiscus and ensure that these entities contribute their fair share to the country's gross domestic product.

41. It is important to ensure that our Parastatals are accountable, transparent, efficient, effective, and where applicable, they are commercially viable.

42. In such instances, commercial Parastatals should strive to operate at par with their private sector counterparts.

43. Ministries with Parastatals under their purview should also consider and propose submissions with regard to specific reform strategies for individual entities.

44. This should include the identification of opportunities for strategic joint venture partnerships.

45. Where necessary, consideration of unbundling, consolidation, commercialisation, and dissolution should be proposed.

46. To provide impetus to the reform process, Cabinet has designated the Office of the President and Cabinet, Treasury, and the State Enterprises Restructuring Agency (SERA) as lead Agencies for the exercise.

Utilities

47. Proposals of measures to address high cost of utilities will also be necessary to lower the cost businesses incur in their day to day

operations, that way, enhancing product competitiveness in both the domestic as well as export markets.

Investment & Business Environment

Perceived Country Risk

48. Addressing the perceived high country risk factor will be essential to attracting the much needed foreign investment inflows, critical for:

    - access to managerial skills;
    - access to capital;
    - technology transfer;
    - providing the impetus for the creation of employment;
    - access to external markets;
    - foreign currency generation;
    - financial sector liquidity; and
    - attainment of sustainable economic growth.

49. This should also benefit from efforts that are already underway to improve the *Ease and Cost of Doing Business* environment, necessary for improving the competitiveness of domestically produced goods.

50. In line with Cabinet's directive, submissions from Ministries and Departments towards the 2018 National Budget should contain proposals promotive of investment, including appropriate investment incentives.

51. Cabinet recognises that the success of these initiatives will require *Clarity and Consistency* of our investment rules and regulations.

Indigenisation Legal Framework

52. Measures to improve the domestic investment climate will be complemented by the alignment of the Indigenisation and Economic Empowerment Act to the policy clarification by His Excellency, the President.

Domestic Production

53. It will also be necessary that Ministry submissions address structural rigidities in the economy that undermine our quest for boosting production in mining, agriculture, manufacturing, tourism as well as export receipts.

54. These include the high cost of utilities, the high wage structure, labour market inflexibilities, multiplicity of levies, charges and permits requirements, among others.

Financial Inclusion

55. In the financial sector, the Reserve Bank continues to implement measures that enhance public confidence in the banking sector.

56. This includes re-orienting the financial sector to support productive sectors and general financial inclusion through periodic review of:

- High bank charges;
- Low deposits rates; and
- Withdrawal requirements.

57. Furthermore, broadened embracement of use of plastic money across the various business and economic sectors, which benefit business and other financial transactions, should also enhance revenue inflows to the fiscus.

Market Indiscipline and Corruption

58. Currently, business activity is being threatened by wide spread market indiscipline, exacerbated by corrupt practices and tendencies across both public and private sectors.

59. The 2018 National Budget will, therefore, contain measures that:

- Enforce anti-money laundering measures, including on those involved in externalisation;
- Require foreigners with investments in the country to have local bank accounts, as well as pay relevant taxes;
- Deal with retail outlets and financial sector players involved in underground forex dealings through enforcement of Exchange

Control and the Bank Use Promotion Act, with cancellation of licences upon conviction;

- Expedite establishment of the Commercial Court;
- Resolutely deal with the scourge of corruption at all levels; and
- Eliminate multi-pricing.

Security of Tenure

60. Government is currently seized with the thrust of implementing our Zim Asset strategies that are aimed at boosting productivity in agriculture, as well as restore the country's bread basket status through such programmes as the '*Command Agriculture'* and the Presidential Input Support Schemes targeting vulnerable households.

61. In this regard, any illegal occupation of productive agricultural land undermines agricultural production.

62. Pursuant to this, Cabinet has directed for a stop to illegal land occupations.

63. Furthermore, of critical importance to security of tenure for farmers is expediting *Farm Surveys* and issuance of A1 Permits and A2 99-Year Leases.

MACRO-ECONOMIC OUTLOOK

Global Economy

Growth

64. Prospects for global output growth look positive, with projections of 3.5% and 3.6% in 2017 and 2018, respectively.

65. This performance is sustained by emerging economies, on the back of softer growth in advanced economies.

World Economic Growth

	2014	2015	2016	2017	2018	2019	2020
World	3.4	3.2	3.1	3.5	3.6	3.7	3.7
Advanced	2.0	2.1	1.7	2.0	2.0	1.9	1.7
Emerging	4.7	4.2	4.1	4.5	4.8	4.9	4.9
Sub-Saharan Africa	5.1	3.4	1.4	2.6	3.5	3.6	3.7
Zimbabwe	2.8	1.4	0.1	3.7	3.0	4.3	4.5

Source: IMF World Economic Outlook

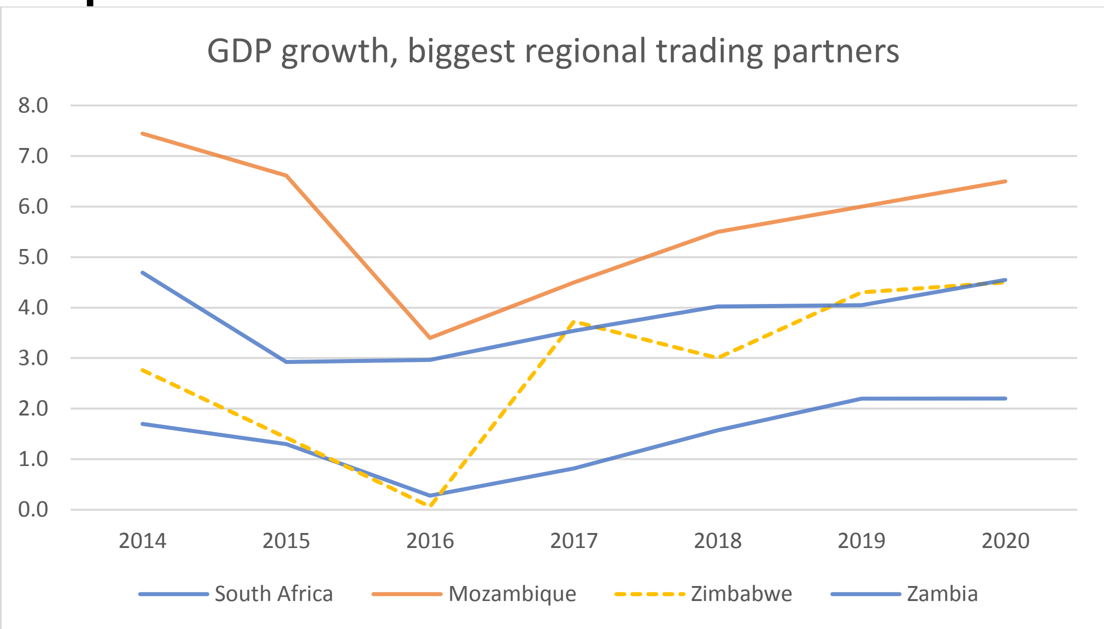
66. Economic growth of advanced economies is projected at 2% in 2017 and 2018, while output in emerging economies is projected to grow by 4.5% and 4.8% in 2017 and 2018, respectively.

67. However, there are downside risks related to shifts towards protectionism in advanced economies, coupled with increased geo-political tensions, as well as policy uncertainty.

68. In the medium term, growth for both advanced and emerging economies is expected to remain positive, averaging 1.8% and 4.9%, respectively.

69. With regards to Sub-Saharan Africa, growth prospects improve from 1.4% in 2016 to an anticipated 3.5% in 2018, driven mainly by external demand, recovery from drought and reforms to tackle macro-economic imbalances.

Comparative Growth Rates



Source: World Economic Outlook, Ministry of Finance and Economic Development

Minerals Prices

70. Further weakening of gold prices is anticipated in 2018, from US$1 249 per ounce in 2016 and US$1 225 in 2017 to an average of US$1 206, due to increased supply.

71. However, on a positive note, gains in platinum prices are forecast for the coming year, from an average of US$987 per ounce in 2016 and US$1 000 in 2017 to US$1 032 in 2018, mainly on account of strong demand.

72. Furthermore, nickel prices are also on the rebound following increased demand of the commodity, with a projected price of US$11 034 per ton in 2018, up from US$10 500 in 2017.

Mineral Prices

	2016	2017	2018
Crude Oil, Brent/barrel	44	55	60
Gold/ounce	1 249	1 225	1 206
Platinum/toz	987	1 000	1 032
Nickel/mt	9 595	10 500	11 034

Source: World Bank Commodity Markets Outlook

Oil Prices

73. Oil prices are projected to average US$55/barrel in 2017, compared to the 2016 average of US$44.

74. However, in 2018, oil prices are expected to increase to US$60, mainly due to supply restrictions by OPEC and non-OPEC producers.

Domestic Economy

75. In 2017, domestic economic activity is expected to improve from the initial GDP growth projection of 1.7% to around 3.7% in 2017, owing to improved agriculture, mining and electricity performance.

GDP Growth Rates by Sector

	2014	2015	2016	2017	2018	2019	2020
GDP by industry at constant prices	**2.8**	**1.4**	**0.1**	**3.7**	**3.0**	**4.3**	**4.5**
Agriculture and forestry	23.0	-5.2	-5.5	15.9	5.0	8.8	11.5
Mining and quarrying	-3.4	0.4	8.2	7.5	5.3	6.4	3.6
Manufacturing	-5.1	0.2	0.9	1.0	1.4	1.6	2.4
Electricity and water	5.4	-5.7	-23.5	10.7	28.5	11.9	1.5
Construction	6.9	4.0	3.6	2.2	2.1	3.0	4.4
Distribution, Hotels and restaurants	2.5	3.8	4.3	1.7	4.4	6.5	8.0
Transportation and communication	1.1	4.9	2.9	1.4	0.8	2.8	3.5
Financial, banking and insurance activities	-16.5	1.1	1.4	0.4	-0.3	2.9	2.5
Administrative and support service activities	9.1	1.3	-5.4	-0.9	-0.9	-0.9	-0.9
Education and training	5.2	-5.6	0.3	2.3	0.5	3.1	3.1
Human health and social work activities	11.1	11.8	0.3	2.0	2.2	1.0	1.0
Real estate activities	4.8	11.0	3.6	2.2	2.1	3.0	4.4
Other service activities	-3.3	-4.7	6.9	-1.7	-0.8	-0.2	1.0
Private households with employed persons	2.2	2.0	0.0	-1.5	0.0	0.8	0.0

Source: MoFED, MoMPIP, RBZ, ZIMSTAT

76. Agriculture output was spurred by timeous financial support from both Government and the private sector under the Presidential Input Scheme and the 'Command Agriculture' programme, coupled with good rains. As a result, agriculture sector output is estimated to grow by 15.9% in 2017.

77. Modest recovery in international mineral prices, ongoing consolidation and capitalisation of the Zimbabwe Consolidated Diamond Company (ZCDC), review of royalties, lifting of the ban on

export of chrome ore and the recapitalisation of Hwange Colliery Company, helped to boost mineral output growth. Consequently, mining growth is estimated at 7.5% in 2017.

78. The estimated strong growth of 10.7% in electricity generation is benefiting from increased water allocation to Kariba Hydro Power Station, as well as stable generation at Hwange Thermal Power Station.

79. Performance of the services and manufacturing sectors is being subdued by liquidity constraints and foreign currency shortages.

Medium Term Outlook

80. In the outlook, steady economic growth of 3% is projected in 2018, and is expected to average 4.4% in the medium term.

Medium Term Macro-Economic Developments (US$M)

	2016	2017	2018	2019	2020
Nominal GDP	**16 149.3**	**16 819.0**	**17 459.9**	**18 731.5**	**20 198.2**
Real GDP Growth (%)	0.1	3.7	3.0	4.3	4.5
Inflation (%)	-1.6	0.7	2.6	5.7	6.9
Final consumption	16 621.4	16 837.9	17 293.9	18 639.3	19 951.9
Gross capital formation	1 895	2 351	2 566	2 729	2 862
Trade balance	**-2 367.1**	**-2 369.9**	**-2 399.6**	**-2 637.3**	**-2 615.5**
Exports of goods and services	4 059.6	4 303.7	4 600.6	4 832.6	5 068.3
Imports of goods and services	6 426.7	6 673.7	7 000.2	7 469.9	7 683.8

Source: Ministry of Finance and Economic Development, Ministry of Macro-Economic Planning and Investment Promotion, Reserve Bank

81. Forecasts of improved economic growth are on the back of recovery in commodity prices, in particular mining.

82. In agriculture, output growth will be underpinned by scaled up co-ordination and funding from Government and the private sector and increased investment in irrigation development.

83. Improved power generation will also benefit from completion of construction works at Kariba South Extension Plant.

Mining

84. Growth in mining is being driven by minerals such as gold, nickel, coal, chrome, diamonds, as well as platinum.

85. The realisation of the full potential of gold and diamonds to leverage growth in the mining sector should also focus on strategies that plug leakages, and support for the Zimbabwe Consolidated Diamonds Company to allow the company to venture fully into conglomerate mining.

Manufacturing

86. Benefitting from the momentum in the mining and agricultural sectors, the manufacturing industry should continue to play its part in spurring economic growth through value chain linkages.

87. Growth should also be complemented by various interventions which include:

- fast-tracking implementation of Special Economic Zones in order to resuscitate critical industries and attract new investments;
- facilitating access to affordable long-term lines of credit for re-tooling and modernisation; and
- deepening implementation of the Buy Zimbabwe Campaign;

Tourism

88. In 2018, priority will be on strengthening initiatives to further improve performance of the tourism industry by making Zimbabwe a preferred tourism destination.

89. Key interventions targeted for implementation should include the following:

- re-invigorating marketing of tourism products, both on the domestic and international markets;
- re-pricing tourism products and facilities, in order to achieve competitiveness with neighbouring countries; and
- rehabilitation of our road network to tourist resorts.

90. The above initiatives will be complemented by provision of enabling infrastructure, including sustained upgrading of tourism facilities.

Financial Sector

91. Notwithstanding challenges related to liquidity, the financial sector is relatively stable, with capitalisation levels and profitability higher as non-performing loans decline.

Financial Sector Performance Indicators

	Jun-16	Dec-16	Jun-17
Total Assets (US$ billion)	8.0	8.7	9.7
Net Capital Base (US$ billion)	1.2	1.3	1.4
Net Profit (US$ million)	68.0	181.1	100.6
Return on Assets (%)	1.0	2.3	1.3
Non-Performing Loans (%)	10.1	7.9	8.0
Liquidity Ratio %	52.5	61.9	66.9

Source: Reserve Bank

92. Projections into 2018 also confirm sustained stability in the financial sector following supportive interventions by the Monetary Authorities to improve foreign currency availability for critical imports.

External Sector

93. Exports are on the increase, benefiting from recovering international commodity prices, while growth of non-essential imports is being managed in line with Zim Asset interventions in support of domestic value addition and production.

94. Export shipments during the first half to June 2017 grew by 18.6% while imports increased by 5.6% compared to the same period last year.

Exports and Imports of Goods (US$ million)

	2016			2017		
	Exports	Imports	Trade Balance	Exports	Imports	Trade Balance
January	249.2	395.3	-146.2	257.8	384.8	-127.0
February	209.6	427.7	-218.2	240.3	424.4	-184.1
March	166.5	478.1	-311.6	224.5	461.6	-237.1
April	157.8	356.5	-198.7	184.5	405.2	-220.7
May	165.2	408.5	-243.3	223.1	466.1	-242.9
June	176.2	429.4	-253.2	204.0	495.2	-291.2
Total	**1 124.5**	**2 495.5**	**-1 371.0**	**1 334.2**	**2 637.2**	**-1 303.0**

Source: ZIMSTAT

95. Major exports include gold, tobacco, platinum, and ferro-chrome, with the main export destinations being South Africa, Mozambique, Zambia and the United Arab Emirates.

96. Imports are dominated by fuels, electricity, fertilizers, medicines and grain. South Africa, Singapore, China and Zambia are the leading suppliers.

Current Account

97. Exports of goods and services are projected at US$4.3 billion and US$4.6 billion in 2017 and 2018 respectively, driven by tobacco and mineral exports.

98. However, the level of imports of goods and services into the economy remains relatively much higher, that way sustaining the prevailing foreign exchange inflows and outflows mismatch. Overall, imports are forecast at US$6.7 billion in 2017 and US$7 billion in 2018.

99. Hence, the need for further interventions to re-double our efforts to grow the economy's value added products export base.

100. The current account deficit is projected at US$651.1 million in 2017 and is expected to narrow, reaching US$492.5 million in 2018.

Balance of Payments Summary (US$M)

	2017 proj	**2018** proj	**2019** pro	**2020** proj
Current Account	**-651.1**	**-492.5**	**-729.1**	**-769.8**
Balance on goods	-1 449.9	-1 468.1	-1 693.6	-1 656.3
Goods: exports f.o.b.	3 925.7	4 199.9	4 407.1	4 630.8
Goods: imports f.o.b.	5 375.6	5 668.0	6 100.7	6 287.1
Balance on services	**-891.0**	**-914.3**	**-940.2**	**-956.2**
Services: credit	407.1	417.9	429.0	440.5
Services: debit	1 298.1	1 332.2	1 369.2	1 396.7
Balance on goods and services	**-2 340.9**	**-2 382.4**	**-2 633.8**	**-2 612.5**
Primary income: credit	230.3	240.7	251.6	262.9
Primary income: debit	391.4	380.8	386.4	388.3
Secondary income				
o/w Workers Remittances	1 112.5	1 267.0	1 280.1	1 290.1
NPISHs	633.5	654.2	644.3	558.3
Financial Account				
Foreign Direct investment	380.0	395	505	577.0
Portfolio investment	-35.0	-20.0	70.0	103.0
Long term loans	83	110.7	179.1	223.7
Short term loans	75	35	-10	42

Source: RBZ

Financial Account

101. The current estimated levels of foreign direct investment of US$380 million in 2017 and projections of US$395 million in 2018 remain inadequate to provide for shortfalls in the economy's domestic savings-investment gap.

102. This is more so as both short and long term loan inflows also remain subdued owing to the limited access to credit from the international markets, against the background of our arrears clearance challenges.

103. The projected subdued capital flows, therefore, require that 2018 Budget intervention measures target much improved investment inflows into the economy. This is also critical for overcoming liquidity constraints and foreign currency shortages in the domestic economy.

Inflation

104. The economy has now moved out of deflation, with annual average inflation for the first half of the year rising to 0.2%, from -1.9% observed during the same period in 2016.

105. Similarly, the month on month average inflation also went up to 0.1% from -0.1%, over the same period.

106. The pressures on prices are also against the background of higher business activity across the economy's various sectors, particularly in agriculture, agro-related value chains, as well as mining.

107. Government and the Monetary Authorities continue to monitor the situation, balancing the need to continue stimulating production and keeping inflationary pressures under check at a time when we are on our own.

2018 BUDGET FRAMEWORK

108. The Budget Framework for the 2018 National Budget has been developed in line with the projected macro-economic parameters for the coming year.

109. This provides a guide on the available overall revenue envelope for the 2018 fiscal year.

Revenue Projections

110. Revenues for the fiscal year 2017 are expected to surpass the Budget target of US$3.7 billion, benefiting largely from the improved economic performance as well as administrative and policy measures implemented through the 2017 National Budget.

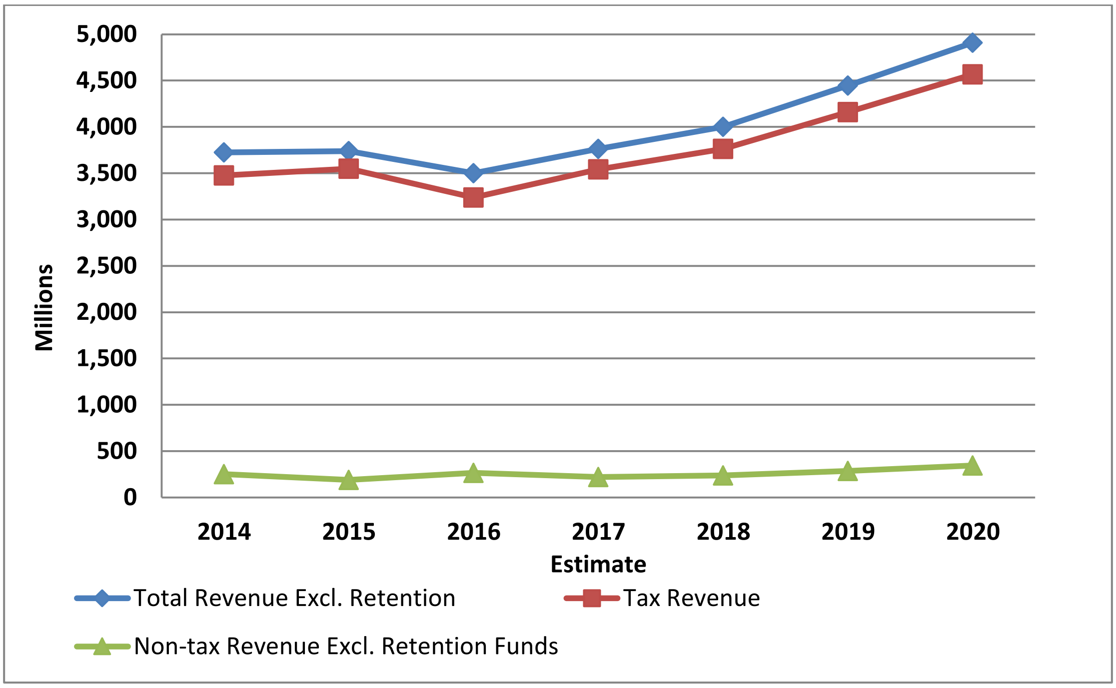
Budget Revenues (US$m)

	2016	2017 Est	Proj. 2018	Proj. 2019	Proj. 2020
Total Revenue	**3 501.9**	**3 761.4**	**4 000.0**	**4 445.0**	**4 910.0**
Total Revenue (% of GDP)	**21.7%**	**22.4%**	**22.9%**	**23.7%**	**24.3%**
Total Revenue (% Growth)	**-6.3%**	**7.4%**	**6.3%**	**11.1%**	**10.5%**
Tax Revenue	3 238.5	3 540.0	3 762.9	4 159.2	4 565.4
Individuals	*735.8*	*740.7*	*782.7*	*854.5*	*931.8*
Companies	*338.2*	*422.7*	*447.6*	*489.0*	*534.1*
Other Taxes	*187.0*	*199.2*	*201.0*	*202.4*	*205.4*
Customs Duties	*272.9*	*303.2*	*319.1*	*346.1*	*375.3*
Excise Duties	*642.0*	*695.8*	*747.8*	*843.5*	*911.8*
Value Added Tax (VAT)	*963.2*	*1 064.4*	*1 130.9*	*1 248.0*	*1 376.0*
Other Indirect Taxes	*99.5*	*113.9*	*133.7*	*175.7*	*231.0*
Non-Tax Revenue	263.5	221.4	237.2	285.8	344.6

Source: Ministry of Finance and Economic Development, Ministry of Macro-Economic Planning and Investment Promotion, Reserve Bank

111. Beyond 2017, revenues are expected to continue on a sustained upward trajectory, from US$4 billion in 2018 to US$4.9 billion in 2020.

Revenue Developments: 2014-2020



Source: Ministry of Finance and Economic Development, Ministry of Macro-Economic Planning and Investment Promotion, Reserve Bank

Tax Administration

112. The projected revenues of US$4 billion for 2018 are anchored on the full implementation of ongoing measures aimed at improving administrative efficiencies in tax collection.

113. This will be achieved through the use of upgraded and modern Information Communication Technology based innovative solutions with a view to plug potential revenue leakages.

114. Major administrative focus will be on curbing smuggling and under-invoicing of both exports and imports, which remains a huge challenge for tax administration.

115. Initiatives to improve efficiencies at Border Posts, securing un-official points of entry, and curbing incidences of corruption will, thus, be key to attaining the projected revenues.

116. These measures will be complemented by ongoing efforts to widen coverage of the tax system to include un-registered businesses, particularly Small, Medium and Micro Enterprises that continue to operate outside the tax net.

117. This exercise will build on the success of the VAT registration amnesty for this class of taxpayers that was embraced by Government in 2017, which has since facilitated the registration of some previously informal businesses, thereby widening the tax net.

118. As a result, a total of 13 000 new tax payers are now being captured in the ZIMRA tax net.

Other Revenue

119. Government Departments will also be expected to play a major role in revenue mobilisation.

120. Efficiency in service provision with particular emphasis on widening the mode of payment for goods and services to include other platforms, such as point-of-sale devices and mobile payment options, is anticipated to realise the revenue generation potential.

Support for Production

121. Furthermore, support to industry remains vital to widening the tax base.

122. In this regard, fiscal concessions aimed at reducing the cost of production, and levelling the playing field between imported and locally produced goods, should enhance the competitiveness of industry, and also improve tax collections.

Retention Funds

123. Section 18 of the Public Finance Management Act empowers the Treasury to establish Funds in cases where the Minister deems it desirable for the purpose of improving service delivery.

124. In this regard, Retention Funds have been established as an incentive to Ministries and Departments to enhance non-tax revenue collection.

125. In order to improve on accountability, transparency and oversight over the application of Retention Fund resources, Government will,

with effect from 2018, include Retained Funds income as part of both revenue and expenditures estimates to be approved by Parliament.

126. Retained Fund income will be ring-fenced to defray expenditures that are consistent with the objectives of each Fund, with the spending being effected through the Public Finance Management System.

127. Such expenditure estimates will be subject to the same scrutiny with respect to prioritisation as other Voted expenditure.

128. Furthermore, the disbursement of the respective Budget allocations will be conditional on submission to the Accountant General of each Retention Fund’s monthly and quarterly Receipts and Expenditure Statements, for consolidation with other Financial Statements.

Statutory Funds

129. Statutory Funds, established through a specific Acts of Parliament pursuant to the provisions of Section 302 of the Constitution, will continue to be managed in terms of the respective Acts.

130. Furthermore, the Public Finance Management Amendment Act, 2016 provides the framework for planning, allocating, budgeting and reporting on the use of Statutory Fund resources.

131. In order to enhance transparency, accountability and oversight over the application of Statutory Funds resources, estimates of both

revenue and expenditure of such funds will be incorporated in the National Budget Estimates for the information and appreciation of stakeholders.

Budget Expenditure Framework

132. The above projections for fiscal revenues for the coming year limit the 2018 National Budget Expenditure Framework to around US$4.68 billion.

Expenditure Framework (US$m)

	2016	2017	2018	2019	2020
Total Expenditure	**4 902.2**	**5 171.6**	**4 680.0**	**4 748.9**	**4 996.7**
Total Expenditure (% of GDP)	**30.4%**	**30.7%**	**26.8%**	**25.4%**	**24.7%**
Total Expenditure (% Growth)	**26.9%**	**5.5%**	**-9.5%**	**1.5%**	**5.2%**
Compensation of Employees	*3 209.8*	*3 393.9*	*3 239.4*	*3 239.4*	*3 239.4*
Interest	*120.2*	*181.0*	*180.6*	*159.5*	*157.4*
Other Recurrent Expenditures	*604.8*	*761.2*	*530.0*	*500*	*600*
Capital and Net Lending	*967.5*	*835.5*	*730.0*	*850*	*1 000*

Source: Ministry of Finance and Economic Development, Ministry of Macro-Economic Planning and Investment Promotion, Reserve Bank

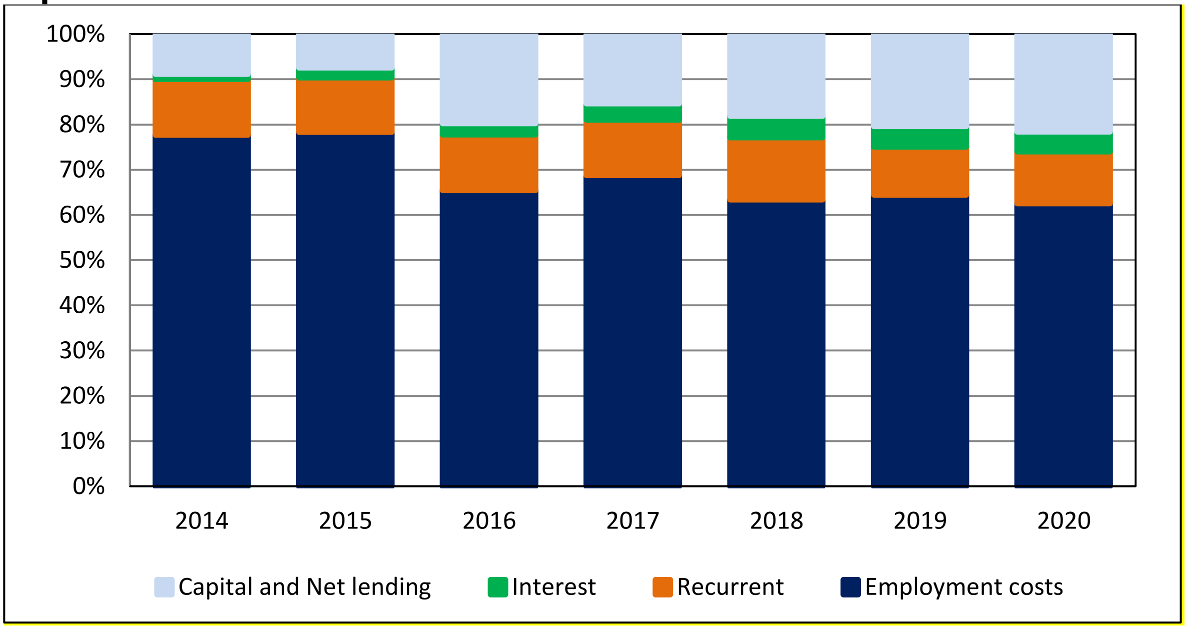
133. Given that our Budgets remain hamstrung by huge expenditure demands to support employment costs, fiscal space to provide for Zim Asset developmental interventions towards crucial operational and capital requirements is compromised.

Wage Bill

134. In 2018, employment costs alone are projected at $3.2 billion, representing an unsustainable 80% of total anticipated revenues.

135. With this high level of employment costs, social service delivery programmes, operations and maintenance as well as the Public Sector Investment Programme will not adequately deliver the desired poverty reduction and development objectives.

Expenditure Trend: 2014-2020



Source: Ministry of Finance and Economic Development

2018 Harmonised General Elections

136. In line with Section 155(1) of the Constitution and Section 38 of the Electoral Act, a general election will be held in 2018.

137. As a build up to the conduct of a general election, the 2017 Budget is already supporting the electoral process through funding of Mobile Registration of prospective Voters as well as Voter Registration and Inspection on the new Biometric Voter Registration Platform.

138. Furthermore, the 2018 Budget will provide resources for the conduct of elections guided by practices and norms obtaining in the region.

139. In this regard, the 2018 National Budget should set aside resources amounting to US$104 million in support of the 2018 Harmonised Elections budget.

Support for Food Security

140. The 2018 National Budget should also support consolidation of the food security gains achieved in agriculture under the Special Maize Production Programme.

141. The thrust will be to extend into other crops and livestock, strengthening agro-value chain inter-linkages.

142. This includes expanding production of high value crops, including horticulture and floriculture, which have a huge quick win potential to generate foreign currency.

Inputs Availability

143. Pursuant to this, Government in partnership with the private sector will coordinate mobilisation of resources to ensure timeous availability of inputs such as seed, fertilizers and chemicals for strategic crops, including maize, cotton, soya beans and wheat.

Agricultural Extension

144. This should be complemented by increased extension services. The 2018 Budget will accordingly, strengthen support towards extension services, inclusive of increased farmer training.

Livestock and Dairy

145. Focus will also be on the Dairy Revitalisation Programme, Aquaculture, and livestock disease control to enhance the quality and size of the national herd, in order to guarantee self-sufficiency and secure export markets.

146. In addition, Budget interventions will reinforce livestock and poultry pest control and disease surveillance to reduce incidences of Foot and Mouth, Anthrax and Newcastle disease outbreaks.

Contract Farming

147. Government interventions in agriculture will also embrace contract farming arrangements between farmers and the private sector, including engagement of joint venture arrangements on various farms administered by Government institutions to maximise production.

148. Success with regards to contract farming will include strengthening of the institutional and regulatory framework, including reviewing the

Stop Order Act with a view to enhance sustainable private sector funding for agriculture.

Irrigation Development

149. Given the phenomenon of climate change and the related adverse effects on agriculture, there is need for the National Budget to also support irrigation rehabilitation and development.

150. The acceleration of priority irrigation schemes should be under the auspices of the existing irrigation development strategy, part of Zim Asset.

151. Therefore, there is urgent need for development of master plans and feasibility studies to ensure optimal utilisation of existing and idle water bodies, targeting 200 hectares per Administrative District per year over the next ten years.

152. To improve small scale irrigation farmer viability, Government will be exploring the scope of reducing production costs arising from utilisation of utilities, such as water and electricity, among other cost drivers.

Recurrent Expenditure

153. The 2018 Budget will seek to stimulate sustainable economic growth by targeting Zim Asset priorities under the following sectors:

Education

154. Government remains committed to providing inclusive and quality education for all.

155. In this regard, the 2018 Budget will focus on provision of school infrastructure, upgrading satellite schools to fully fledged institutions, provision of teaching and learning materials and continued implementation of the competency based New Curriculum, including focus on Science, Technology, Engineering and Mathematics (STEM).

156. In addition, complementary programmes, such as school feeding, access to school fees waivers and teacher capacity development will be strengthened.

157. Under higher and tertiary education, Government is facilitating the re-introduction of student financing mechanisms through identified financial institutions.

158. Government would also want to see prioritisation of development of higher and tertiary education infrastructure, such as student hostels and other facilities.

Health

159. The National Health Strategy (2016-2020) has indicated that the health sector is still inundated with a high disease burden, morbidity

and mortality levels as a result of shortage of medicines and medical supplies, and a weak referral system.

160. The 2018 Budget will continue to support the National Health Strategy in order to achieve reduced incidences of communicable and non-communicable diseases, improve maternal and child health care as well as strengthen public health surveillance, to ensure credible disaster preparedness and response.

161. The primary health care approach, coupled with an effective and efficient referral system up to specialist care, will ensure a functional and strong health delivery system which adequately addresses the health needs of the Nation and steers the country towards the attainment of Sustainable Development Goals 2 and 3.

Local Authorities and Statutory Funds

162. Central Government has been transacting on the Public Finance Management System (PFMS) since 1999[1], whilst local Authorities have been using various accounting packages. This has made difficult reporting on consolidated central and local government accounts.

163. In order to enhance transparency and oversight on all public finances, Government is instituting mechanisms to be consistent with Section

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[1] *During 2007 to 2008, the system could not accommodate the high values during the hyper-inflationary period.*

5 of the PFM Act that would allow interface and consolidation of both Central Government and Local Authorities' financial accounts.

164. Similarly, the 2018 Budget will ensure that all Statutory Funds are appropriated and managed on the PFMS platform.

Empowerment

165. Government will continue to support the empowerment of youths, women and SMEs in line with the thrust outlined in the Interim-Poverty Reduction Strategy Paper (I-PRSP) to ensure sustainable development and poverty eradication.

166. In this regard, 2018 Budget support will also go towards operationalisation of the Youth Empower Bank and Women's Bank, as well as capitalisation of the Small and Medium Enterprise Development Corporation.

167. In addition, the Budget should allow fiscal space to provide for seed capital through the Women Development Fund, Youth Development Fund and Mining Loan Fund to finance the various projects through provision of equipment, as well as comprehensive training in business management and marketing.

Social Protection

168. Social protection is central to human development and, therefore, necessitates that Government continues to provide support to vulnerable groups.

169. In line with the National Social Protection Strategy Framework for Zimbabwe, social protection provides a set of interventions whose objectives are to reduce social and economic risk and vulnerability, and alleviate poverty and deprivation.

170. In order to monitor and evaluate programmes and projects under the I-PRSP, Government conducted visits to selected Provinces and observed that the current level of support was inadequate.

171. The 2018 Budget should continue strengthening existing social safety nets that cater for support to the vulnerable communities.

172. This will be through support for grants to children in difficult circumstances, the elderly, disabled, as well as cash transfers and health assistance.

Welfare of War Veterans

173. Within the context of the on-going re-orientation of public expenditures, the 2018 National Budget will continue to fulfil existing

financial commitments relating to welfare of War Veterans and explore possibility of improvement, as fiscal space improves.

Sport

174. Government will, through the 2018 National Budget take definitive steps towards the transformation of Sport in Zimbabwe, an industry with much potential to sustain livelihoods.

175. Accordingly, the Budget should provide for development and establishment of sports facilities, and infrastructure at community level, so as to enhance access to sports opportunities.

176. In order to meet regional and international standards which are pre-requisite for hosting sporting events at such levels, Government should prioritise the modernisation of national stadia, focusing on introducing bucket seats.

Vocational Training Centres

177. The 2018 Budget seeks to lay the foundation for the establishment of Vocational Training Centres in every Administrative District, throughout the country.

178. The centres will establish the framework for empowering youths through training in various vocations, which will form the basis for

entrepreneurship and self-employment, critical for economic development.

Capital Development Budget

179. Investment in infrastructure will continue to be guided by Zim Asset, with priority being on sustaining implementation of ongoing projects in the key sectors of energy, transport, water and sanitation, ICT and irrigation development.

180. Attention will also be on project preparation and development, thereby facilitating mobilisation of resources and ensuring efficient implementation of financially and economically feasible projects.

181. Implementing agencies are expected to complement the above efforts through re-investing their own resources in infrastructure, as well as instituting measures aimed at enhancing revenue collection rates.

Joint Ventures and Development Partner Support

182. Additional resources will be mobilised through loan financing and development partner support, whilst implementation of Joint Ventures will be enhanced through development of pre-feasibility and feasibility studies.

183. These will benefit from the institutional and regulatory framework which has been established under the Joint Ventures Act [Chapter 22:22].

Energy

184. In the energy sector, investments underway and those in the pipeline will result in the country achieving electricity self-sufficiency, including scope for exports within a decade.

185. The interventions are aimed at supporting ongoing initiatives of improving power generation, transmission as well as distribution.

186. The ongoing system rehabilitation programmes will be sustained to ensure stability in generation capacity, whilst at the same time increasing revenue collection rates though increasing coverage of efficient billing systems.

187. Government is also ready to consider fiscal incentives geared towards encouraging Independent Power Producers to make investment in power generation.

188. The Rural Electrification Programme will be supported to enable further coverage of rural areas, thereby promoting empowerment of rural communities.

Transport

189. Given that transport is a critical component of economic development, investments in transport infrastructure will be prioritised in the 2018 National Budget, targeting roads, aviation and rail.

Roads

190. Government has already started reclaiming road infrastructure after decades of continuous decline.

191. Focus will be on supporting on going roads upgrading and maintenance programmes, targeting the primary, secondary and tertiary road network leveraging resources from the Budget, Road Fund and Road Authorities.

192. The current Emergency Road Rehabilitation Programme has provided a platform for effective coordination on road interventions. Accordingly, similar programmes will be pursued in 2018 in order to sustain the current momentum.

Rail

193. The recapitalisation of the National Railways of Zimbabwe remains a priority.

194. Targeted interventions include rehabilitation and upgrading of tracks, locomotives, wagons, removal of cautions as well as restoration of the signalling and communication equipment.

Water and Sanitation

195. Improving access to water and sanitation impacts on the overall social and economic development of communities as it contributes to poverty reduction and ensures environmental sustainability.

196. Priority should, therefore, be on implementation of water supply projects comprising dam construction and water conveyancing infrastructure, especially in small towns and growth points. This will include measures to ensure full utilisation of already existing water bodies.

197. Rural WASH programmes will be enhanced through allocating resources for borehole drilling and procurement of drilling rigs.

198. Focus should also be on establishing appropriate institutional and regulatory frameworks in the water sector.

199. The Budget must also allocate resources to stop land degradation through gully reclamation, de-siltation and enforcement of environmental laws, for example the making of the contour ridges, among others.

ICT

200. Information Communication Technology (ICT) innovation has become a key factor in economic development through enhancing competitiveness and productivity.

201. In 2018, Government should continue to focus on interventions aimed at deepening the use of ICTs in the economy, targeting e-Government and e-learning programmes, expanding coverage of the fibre optic backbone infrastructure.

202. This should enable the country to increase internet and mobile penetration rates, whilst also assisting in improving easing of financial transactions.

203. Additionally, priority will also be accorded to policy measures that ensure an equal playing field for players in the ICT sector, including consolidation of the initiatives made on infrastructure sharing.

204. With regards to the Zimbabwe Digital Broadcasting Migration Project, innovative funding options should be explored to cover the remaining works on the project.

205. The project is expected to deliver digital television services to citizens as well as address the challenge of poor radio reception in some parts of the country.

Housing Development

206. Informal and poorly planned settlements, without the requisite offsite and onsite infrastructure, are not sustainable, given the health risks to citizens.

207. Provision of affordable housing requires a structured, collaborative and sustainable housing delivery mechanism that involves Government and the private sector.

208. In this regard, and through the National Housing Delivery Strategy, Government focus has been on scaling up provision of serviced residential stands in collaboration with the private sector.

209. Already, a cooperation framework has been established to promote affordable housing delivery in the country, focusing on the following:

- Provision of low cost undeveloped land held by the State, Local Authorities and other institutions such as Universities and Parastatals;
- Mobilisation of appropriately priced funds from the market, that will blend equity, concessional and debt financing; and
- Promotion of low cost construction materials.

210. The above co-operation framework is co-ordinated by Treasury, the Ministry of Local Government, Public Works and National Housing,

Urban Development Corporation and the Infrastructure Development Bank of Zimbabwe.

211. Through the 2018 Budget, Government will seek to further capitalise the Infrastructure Development Bank of Zimbabwe with a view of enabling it to mobilise requisite financing from the market to upscale implementation of infrastructure projects, including housing.

212. Furthermore, Government should capacitate the Department of Physical Planning and State Land Management as well as the Surveyor General’s Office to undertake integrated land use infrastructure planning, focusing on urban and rural settlements, particularly at our Rural Service Centres and Growth Points.

213. This should facilitate investments in the targeted areas and accelerate housing delivery, as well as ensure an orderly and functional built environment.

Purchase of Chanceries

214. The weak state of our public finances, coupled with declining foreign currency reserves, has undermined Government’s commitment towards supporting our Foreign Embassies.

215. Fiscal consolidation efforts currently underway, which are underpinned by an expenditure re-orientation strategy, present an opportunity to redress the above position.

216. In order to begin to cut down on incurring arrears in rentals, Government will direct some of the financial savings towards the procurement of Official Residences and Chanceries at priority Multilateral and Bilateral Missions, as guided by the Ministry of Foreign Affairs.

ZIM ASSET 2ND PHASE

217. Stakeholders will be aware that the first phase of Zim Asset is up to 2018. Accordingly, Government has embarked on the development of second phase of the Programme which will span the period 2019 to 2023.

218. For the second phase, the Clusters defined in the first phase will be maintained as they remain relevant to the country's long term objectives and priorities.

219. The second phase of Zim Asset will stipulate the country's medium term strategic direction, development priorities and implementation strategies.

220. Of critical importance is the need for our social economic plans to embrace the United Nations Sustainable Goals.

221. Government is also focussed on developing Vision 2040, which itself will be underpinned by Five Year blue prints.

222. The Ministry of Marco-Economic Planning and Investment Promotion which is at the centre of processes for co-ordinating development of these Plans is now embarking on a stakeholder consultative process in this regard.

CONCLUSION

223. The highlights made in this Budget Strategy Paper form a basis for stakeholders to debate and ultimately draw inputs and proposals for the 2018 National Budget in a focused way.

224. At this stage, some of the variables remain tentative and may continue to be updated based on later developments and ongoing consultations.

225. The Budget only becomes an effective tool for development and macro-economic management with full support and participation of stakeholders in its formulation.

226. Therefore, Treasury welcomes inputs from line Ministries and Departments as well as interested parties and members of the public.

The Treasury
Harare

25 September 2017