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**ZIMBABWE**

**THE 2021 MID-TERM BUDGET AND ECONOMIC  
REVIEW SPEECH**

**PRESENTED TO THE  
PARLIAMENT OF ZIMBABWE**

**ON THURSDAY, JULY 29, 2021**

**By**

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**Minister of Finance and Economic Development**



## **MOTION**

1. Mr Speaker Sir, I move that leave be granted to present the 2021 Mid-Term Budget and Economic Review which provides an update on the performance of the economy, and the 2021 Budget implementation progress during the first half of the year. The theme of the 2021 National Budget is “Building Resilience and Sustainable Economic Recovery”.
2. This is in compliance with section 7(2)(a) of the Public Finance Management Act and section 9 of the Public Finance Management (General) Regulations of 2019.
3. Before I proceed with my presentation, let me begin by expressing gratitude to His Excellency the President, Dr E.D. Mnangagwa, Vice President, Dr Constantino D. N. G. Chiwenga, Cabinet Ministers, line Ministries, Government Agencies, Honourable Members of Parliament and all stakeholders who provided their inputs in the formulation of this Review document.

## **ECONOMIC DEVELOPMENTS DURING THE FIRST HALF OF THE YEAR**

4. Mr Speaker Sir, allow me now to turn to the contents of the Review document beginning with a brief on the global and domestic economic developments and outlook.

## **Global Economy**

5. The global economy is now projected to grow by 6% in 2021, an upward review from an initial forecast of 0.5%. Projected higher growth is on account of additional fiscal support, monetary accommodation and the ongoing vaccination process by major economies, which have the potential to reduce the severity and frequency of infections under the COVID-19 pandemic (**slide 2**).
  
6. The Sub Saharan region, on the other hand is projected to grow by 3.4% in 2021, a slight increase from the initial projection of 3.1% (**slide 3**). The recovery will mostly be supported by firm international commodity prices, spill-over effects from global growth, and some supportive fiscal and monetary interventions (**slide 4**).

## **DOMESTIC ECONOMIC PERFORMANCE**

7. Mr Speaker Sir, the domestic GDP growth for the year 2021 is projected to remain strong at 7.8%, slightly above the 2021 National Budget growth forecast of 7.4% (**slide 5**). The strong rebound of the economy is anchored on better 2020/21 rainfall season, higher international mineral commodity prices, stable macroeconomic environment and COVID-19 pandemic response measures, including vaccination program.

8. Higher growth rates are projected in agriculture, electricity generation, accommodation and food services, as well as financial services (**slides 6, 7, 8, 9, 10 and 11**).

### **Inflation Developments**

9. Mr Speaker Sir, fiscal and monetary consolidation measures being implemented by Government to date have managed to firmly anchor inflation expectations as shown by a significant decline in inflation from 837.5% in July 2020 to 106.6% in June 2021. The July year-on-year inflation is 56.37% and 2.56% for month-on-month inflation (**slide 12**).
10. Month-on-month inflation is expected to remain stable at less than 3% during the second half of 2021. Consequently, annual inflation is expected to decline further by end of August 2021 and further to between 22% and 35% by December 2021 (**slide 13**).
11. Mr Speaker Sir, the current price and exchange rate stability will go a long way in supporting industry in making long term investment decisions and allow for the efficient allocation of resources (**slide 14**).
12. In this regard, Treasury and the Central Bank will continue to pursue strong monetary and fiscal policies that sustain the current disinflationary path.

## Monetary Developments

13. Mr Speaker Sir, the Central Bank has continued to implement the monetary targeting framework which balances the need to sustainably anchor inflation expectations and simultaneously provide appropriate levels of liquidity in support of economic activity.
14. The monetary targeting framework has helped to contain money supply growth, which in turn has stabilised the exchange rate and eased inflationary pressures in the economy.
15. In 2021, reserve money growth target per quarter was lowered from 25% in 2020 to 22.5%, in order to send a strong signal to the market that Government will do whatever it takes to stabilise the economy (*slides 15 and 16*).

## FINANCIAL SECTOR

16. Mr Speaker Sir, I wish to report to this August House that the banking sector is safe and sound, even under the disruptive impact of the COVID-19 pandemic.
17. The banking sector remained adequately capitalised, with aggregate core capital of ZW\$64.21 billion as at 31 March 2021, an increase of 20.74%, from ZW\$53.18 billion as at 31 December 2020 (*slide 17*).

## BALANCE OF PAYMENTS

18. Mr Speaker Sir, the country's external sector position has remained strong in support of the country's balance of payments requirements, as well as stabilising the exchange rate.
19. Notwithstanding the transitory current account deficit realized during the first quarter of 2021, the current account balance for 2021 is projected to remain in a surplus position, albeit at a moderated level of US\$611.6 million, compared to US\$1 096 million recorded in 2020 (**slides 18 and 19**).
20. Merchandise exports are projected to increase by 4.2%, from US\$4 931.9 million in 2020 to US\$5 139.8 million in 2021. Mineral exports are expected to maintain strong growth on account of the continued strong performances in Platinum Group of Metals (PGMs) and recovery in chrome and high carbon ferrochrome exports (**slide 20**).
21. Merchandise imports are also projected to increase by 11.1% to US\$5 245.7 million in 2021, from US\$4 719.9 million in 2020, driven by increases in fuel, machinery and raw material imports. Food imports will, however, be lower on account of reduced maize imports, following a good 2020/21 agricultural season.

22. Between January and June 2021, the country received US\$746.9 million in diaspora remittances compared to US\$288.7 million received during the same period last year. Remittances are projected to continue to drive the current account surplus in 2021, with end year projection of US\$1.3 billion (*slide 21*).

## **PUBLIC FINANCES DEVELOPMENTS**

23. The 2021 National Budget was premised on revenue projections of ZW\$390.8 billion (16.4% of GDP) and expenditures of ZWL\$421.6 billion (18.2% of GDP) with a targeted budget deficit of ZWL\$30.8 billion (-1.3% of GDP).

### **Budget Outturn: Jan–June 2021**

24. The first half year budget execution indicates continued dividends from the fiscal consolidation measures being pursued since the Transitional Stabilisation Programme (TSP) and these relate to the following:
- Spending within the Budget that has resulted in improved public finances;
  - Managing the budget deficit, and hence, the public debt within sustainable levels;

- Supportive monetary policy target on attaining macro-economic stability and growth objectives; and
  - Availing more resources towards developmental programmes and projects, including infrastructure, social service delivery and social protection.
25. To that end, for the period Jan-June 2021, revenues are estimated at ZWL\$198.2 billion, whilst expenditures were about ZWL\$197.6 billion, resulting in an almost balanced budget position, with a small surplus of ZWL\$570 million (**slide 22**).
26. In the outlook, the budget is anticipated to remain more or less on course assuming limited impact of exigencies and containment of expenditure pressures.

### **Revenue**

27. Cumulative revenue collections for the period January to June 2021 amounted to ZW\$198.2 billion against a target of ZW\$182.1 billion, resulting in a positive variance of ZW\$16 billion or 8.8%. This positive performance was attributed to both tax and non-tax revenues, which were above targets by 5.3% and 392%, respectively (**slide 23**).
28. Total revenue collections also include net cumulative foreign currency collections of US\$698.5 million (against a target of US\$660 million).

29. The major contributing revenue heads were VAT (23%), Corporate Income Tax (20%) and Personal Income Tax (17%) (*slides 24 and 25*).

### **Expenditure**

30. Overall expenditures during the period January to June 2021 stood at ZWL\$197.6 billion, implying expenditures were above the half year target of ZWL\$189.8 billion by ZWL\$7.8 billion.
31. Major expenditures were on Compensation of Employees at ZWL\$80 billion against a target of ZWL\$73.8 billion and Non-Financial Assets (capital budget) at ZWL\$67.4 billion against a target of ZWL\$58 billion (*slide 26*).
32. Social benefits and subsidies stood at ZWL\$14.5 billion and ZWL\$2.9 billion, against the half year targets of ZWL\$6.1 billion and ZWL\$1.4 billion, respectively (*slide 27*).
33. In the outlook to December 2021, budget expenditure target of ZWL\$421.6 billion will be maintained as we try to contain expenditures, save for exigencies managed through reallocations, where necessary.
34. In terms of Votes performance, disbursements to Ministries, Departments and Agencies were generally in line with planned

and budgeted programmes and projects, save for unforeseen but essential developments, particularly those meant to save and cushion lives against the pandemic (**slide 28**).

35. As a result, expenditure on Government programmes during the period under review, was 41% of total budget against a half year target of 45%.

### **Capital Development Budget**

36. Mr Speaker Sir, capital spending as at 30 June 2021 amounted to ZWL\$67.4 billion, against a target of ZWL\$58 billion (**slides 29 and 30**).

### **Progress**

37. Notwithstanding the slowdown in commencement of works during the first quarter on account of COVID-19 containment measures, support has since been availed towards development and infrastructure projects.
38. Financial resources were disbursed mainly towards completion of ongoing works, as well as sustaining works on projects at advanced stages of completion in various sectors of the economy.

39. Furthermore, Government has strengthened monitoring and evaluation of targeted projects in order to guide policy interventions that would upscale project execution.
40. Devolution resources facilitated implementation of various projects across the country in areas of health, education, roads, water and sanitation (**slide 31**).

### **COVID-19 Vaccination**

41. In view of the persistent COVID-19 pandemic, intensive vaccination remains un-avoidable and a long-term solution to save lives and livelihoods utilising the savings from last year. To date, resources amounting to US\$93.2 million have been spent on vaccines alone.
42. Government has set aside US\$100 million for vaccines acquisition.

### **Strategic Grain Reserve**

43. As at 26 July 2021, grain deliveries by farmers to GMB depots stood at 636 884 tons valued at ZWL\$20.9 billion, of which 566 751 tons was for maize, 58 212 tons small grains, 11 260 tons soya beans and 661 tons wheat.

44. Going forward, to ensure timely and efficiency in payment for the procurement of the anticipated deliveries of 1.9 million tons valued at ZWL\$62 billion, Government will continue to mobilise resources through various instruments, including purchases by private sector.

## **PUBLIC DEBT**

### **Domestic Debt**

45. Mr Speaker Sir, access to external financing remains constrained, due to debt arrears, therefore, domestic financial markets remain the major source of budget financing. Consequently, domestic debt as at end of April 2021 amounted to ZWL\$20.9 billion (*slide 32*).
46. Meanwhile, following the signing of the Global Compensation Deed in July 2020 in support of the compensation of farm improvements to Former Farm Owners, Treasury has engaged a Financial Advisor- Newstate Partners UK, who will advise on mobilisation of resources.
47. Government will continue making interim relief payments to Former Farm Owners, while mobilising the resources for the full compensation.

## **Arrears and External Debt**

48. As at end December 2020, total Public and Publicly Guaranteed external debt including RBZ external guaranteed debt amounted to US\$10.5 billion, representing 71.2% of GDP. External debt arrears alone make up over US\$6.5 billion (77%) of total external debt (**slide 33**).
49. Mr Speaker Sir, Treasury, in March 2021, resumed quarterly token payments to the Multilateral Development Banks (MDBs), the World Bank Group, the African Development Bank Group and the European Investment Bank.
50. Token payments are part of the re-engagement process with the International Community in line with the Arrears Clearance and Debt Relief Strategy which is critical in regaining access to concessional financing from both multilateral and bilateral development partners. Payments to Paris Club Creditors will also begin in the second half of 2021.

## **DEVELOPMENT PARTNER SUPPORT**

51. Mr Speaker Sir, Government notes and appreciates support pledged by Development Partners in 2021 amounting to US\$841.5 million, towards implementation of development programmes and projects across various sectors of our economy (**slide 34**).

52. Development partners disbursed resources amounting to US\$430 million, during the first half of the year, accounting for 51% of commitments for 2021, of which US\$273.4 million was from bilateral whilst US\$156.7 million was from multilateral partners.

## **CONCLUSION**

53. Mr Speaker Sir, despite the raging global pandemic, implementation of the NDS1 through the 2021 National Budget remains on course, following a favourable farming season, recovery in manufacturing sector and firming international commodity prices.
54. The COVID-19 response measures, coupled with the vaccination exercise currently underway globally and domestically, continue to give hope to the sustained economic recovery.
55. The fiscal consolidation measures implemented to date have engendered stability in the economy.
56. Mr Speaker Sir, let me inform the House that I only presented economic developments to date and outlook, as well as update on the 2021 National Budget implementation progress during the first half of the year.

57. There is need to stay the course. Therefore, there are no policy changes as I believe the existing policies are achieving the desired results and are still adequate. We only need to stay the course, and any substantial policy changes will be introduced through the 2022 National Budget.
58. Let me end by a quote from Author and Behavioural Scientist, Steve Maraboli, “Life doesn’t get easier or more forgiving, we get stronger and more resilient.” Therefore, let’s focus on building resilience and recovery of the economy in the middle of this COVID-19 storm.
59. I finally commend the 2021 Mid Term Budget and Economic Review to this August House.
60. I thank you.

Hon. Prof. M. Ncube

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29 July 2021

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