Government of Zimbabwe

ANNUAL BUDGET REVIEW

FISCAL YEAR 2017

MAY 2018

FOREWORD

In line with the new National Budget presentation format I introduced through the 2017 National Budget of separating extensive review of economic performance of the previous year and the current National Budget, I present this 2017 Annual Budget Review.

The Review unravels the performance of the 2017 National Budget in terms of revenues and expenditure in relation to targets thereof as well as the general performance of the economy with a view to enhance accountability and fiscal transparency.

The Review provide comprehensive information on public finances and economic development complementing other periodic publications by Treasury such as the quarterly bulletins and the Consolidated Monthly Financial Statements.

It also take stock of other Government policy interventions made during the year and their impact.

Information provided thereof should be useful for decision making processes of stekholders.

Hon. P. A. Chinamasa, MP
Minister of Finance and Economic Development
May 2018

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INTRODUCTION

1. The 2017 Annual Budget Review gives overall performance of the 2017 National Budget against originally set objectives and targets.

2. The Review, therefore, provides comprehensive information on public finances and macro-economic developments, complementing other periodic publications by Treasury, such as the Quarterly Treasury Bulletins and the Consolidated Monthly Financial Statements.

PUBLIC FINANCES

3. The 2017 National Budget had envisaged revenue collections of US$3.7 billion, expenditure of US$4.1 billion and a budget balance of US$400 million.

4. The outcome of the 2017 National Budget was revenues of US$3.9 billion and expenditures of US$6.6 billion causing a financing gap of US$2.7 billion.

5. The huge budget deficit was due to ongoing Government activities to stimulate economy through supporting agricultural activities and other capital activities.

Fiscal Revenue Performance

6. Developments for the entire fiscal year 2017, shows an overall revenue outturn of US$3.9 billion, reflecting an overall revenue increase of US$367.8 million when compared to $3.5 billion collected in 2016.

7. The 2017 National Budget had provided for fiscal revenues for the year at US$3.7 billion.

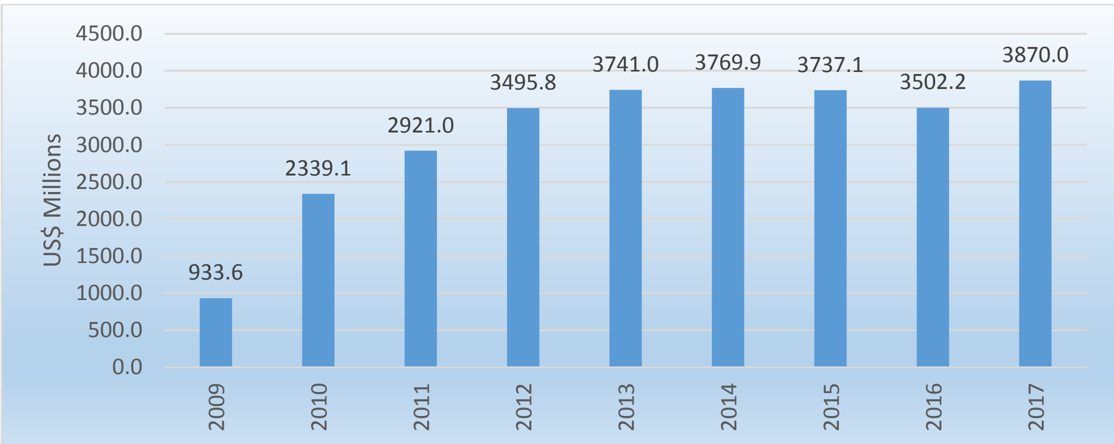
Revenue Performance: January to December 2017

	Actual (US$ mil)	Target (US$ mil)
Total Revenue	**3 870.0**	**3 700.1**
Tax Revenue	3 627.8	3 400.1
Non Tax Revenue	242.2	300.0

Source: Ministry of Finance and Economic Development

8. Revenue performance trends since 2009 are reflected below, to a greater extend, a mirror of overall economic developments.

Annual Revenue Collections



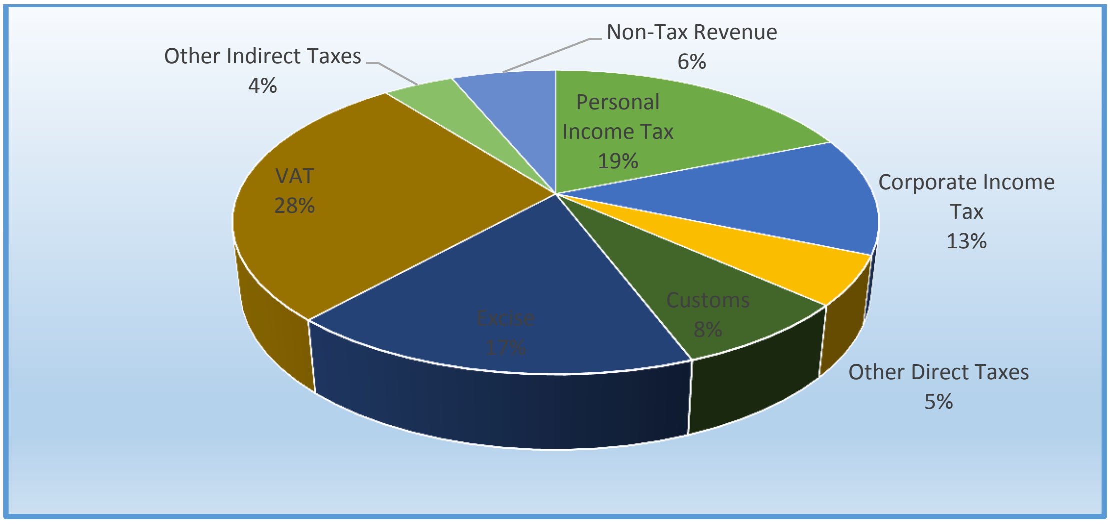
Source: Ministry of Finance and Economic Development

Revenue Heads

9. A significant portion of tax revenue during 2017 was generated from Value Added Tax (VAT), Personal Income Tax and Excise Duty.

10. The Pie Chart below shows the contribution of various Revenue Heads to total fiscal revenue.

Contributions to Total Revenue



Source: Ministry of Finance and Economic Development

11. During the period under review, Personal Income Tax, Other Direct Taxes, and Non-tax Revenue performed below target, whilst the rest of the revenue heads recorded above target collections.

Personal Income Tax

12. Cumulative collections for the period under review amounted to US$729.0 million, against a target of US$763.0 million.

Value Added Tax

13. Cumulative VAT collections amounted to US$1 075.3 million against a target of US$1 012.1 million.

14. Efforts to tighten on collection leakages and increasing the number of VAT withholding agents contributed towards better Value Added Tax collections in 2017.

Corporate Tax

15. Corporate Tax collections amounted to US$484.7 million against a target of US$337.2 million.

Excise Duty

16. Excise Duty collections amounted to US$675.9 million against a target of US$674.7 million. The slight increase was largely attributable to levy on fuels, tobacco and wines and spirits.

17. However, excise duty from other excisable products declined, including beer, airtime and second hand motor vehicles. The decline is largely attributable to shortage of foreign currency and low disposable incomes.

Customs Duty

18. Cumulative Customs Duty collections amounted to US$295.1 million, against a target of US$287.5 million.

19. The over performance is largely attributed to the increase in import volumes. Overall imports are estimated to have increased by 7.5% to US$5.6 billion in 2017, from US$5.2 billion recorded in 2016.

Other Direct Taxes

20. Other Direct Taxes, comprising of domestic Dividends and Interest, Vehicle Carbon Tax, Capital Gains Taxes and Mining Royalties, recorded collections amounting to US$203.1 million against a target of US$211.0 million.

21. Revenue from Other Direct Taxes was undermined by domestic Dividends and Interest collections which amounted to US$57.9 million against a target of US$67.0 Million, Vehicle Carbon Tax which amounted to US$304 million against a target of US$35.3 million.

Other Indirect Taxes

22. Collections under this revenue head amounted to US$164.7 million against a target of US$114.5 million.

23. Other Indirect Taxes comprises of withholding tax on tenders, presumptive tax, stamp duties, intermediated money transfer and ATM levy.

Overall Expenditure Outturn

24. The expenditure policy thrust embraced by the National Budget for 2017 sought to grow the share of resources that support Zim Asset development programmes and improved delivery of social services through the reduction of commitments from the Public Service Wage Bill.

25. This policy pathway remained critical given that wage expenditures accounted for 53.4% and 90.6% of overall Budget expenditures and revenues, respectively in 2017.

26. Accordingly, rationalisation of the Public Service Establishment was necessary, complemented by institution of expenditure management measures.

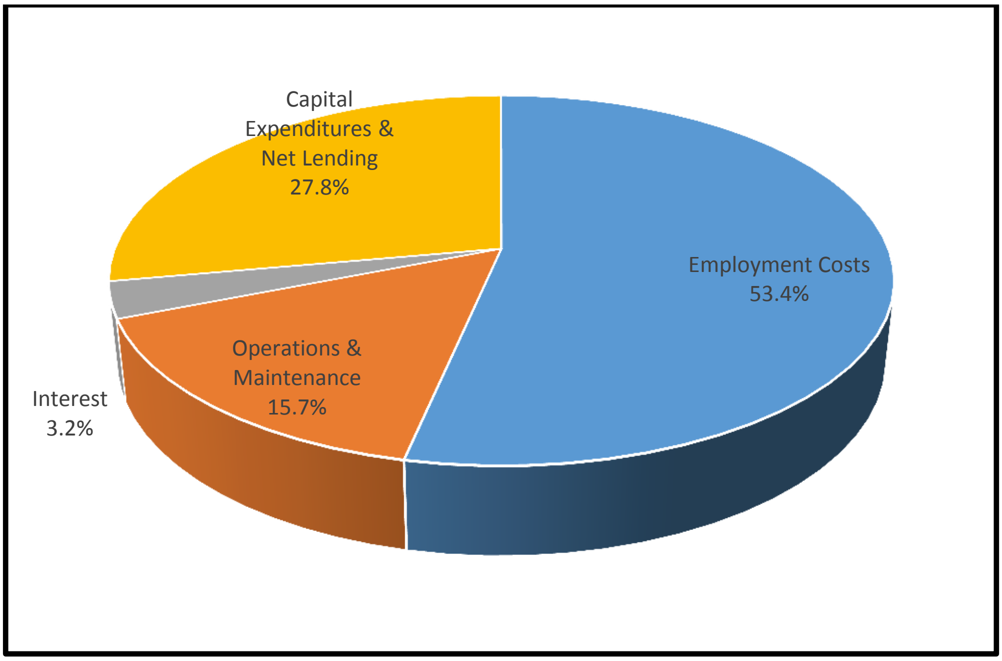
Expenditure Outturn

	Budget Estimate	Expenditure Outturn
	US$m	**US$m**
Total Expenditure & Net Lending	**4,100.0**	**6,568.1**
Employment Costs	3,000.0	3,504.3
Operations and Maintenance	400.0	1,029.3
Interest	180.0	207.7
Capital	520.0	1,826.8

Source: Ministry of Finance and Economic Development

27. Budget expenditures for 2017 amounted to US$6.6 billion against planned expenditures of US$4.1 billion. Resultantly, expenditure overruns of US$2.4 billion ensued.

28. There was over-expenditure for all expenditure heads as indicated on the table above. In terms of the percentages, Employments costs were at 53.4%, Operations and Maintenance, 15.7%, Interest, 3.2% and Capital 27.8%. There was an increase on capital expenditures from 20% absorbed in 2016 to 27.8% of total expenditures spent in 2017.



Source: Ministry of Finance and Economic Development

29. Notwithstanding that employment costs remained the major component of 2016 Budget expenditures, measures to restrain them ensured that over expenditure was US$504.3 million.

30. The major driver behind US$2.4 billion overruns were Budget interventions in support of the expansion of Command agriculture to other crops and livestock. In this regard, such expenditures totaled US$615 million, an over-expenditures of US$549 million on the original 2016 Budget provision of US$66 million.

31. Support towards *Operations and Maintenance* for Ministries and Government Departments incurred excess expenditures of US$629.3 million. The expenditure overrun is attributable to the sixe of the Government until it was downsized towards the end of the year 2017.

Employment Costs

32. The Public Service Wage Bill rationalisation measures being implemented by Government, effective 1 January 2016, constituted the first instalment of measures towards the gradual reduction of fiscal revenues required to support Wage expenditures.

33. In this regard, the medium term Public Service Wage Policy seeks to reduce overall employment costs bill, inclusive of pension payments and employer contributions to medical insurance and social security from 81% of total revenue in 2015 to 65% by 2019, that way creating additional fiscal space to support service delivery and growth enhancing infrastructural spending.

34. The implementation of the Public Service Wage Bill rationalisation measures, approved by Cabinet in November 2015, have had a positive impact of reducing Government's baseline Employment Costs bill, from a monthly level of around U$262 million in 2015 to around US$252 million in 2016.

35. Notwithstanding the impact of gains achieved from the rationalisation of the Public Service establishment, the overall employment costs bill for 2016 remained unsustainably high at US$3.21 billion, accounting for 91.7% of total revenue.

Employment Costs Bill for 2016

	Budget Estimate	Expenditure Outturn
	US$m	**US$m**
Employment Costs	**3,191.0**	**3,209.8**
Civil Service	2,078.7	2,196.6
Grant Aided Institutions	488.9	474.8
Pension	477.6	477.6
PSMAS	120.0	60.4
NSSA	25.2	0.0
Funeral Expenses	0.6	0.4

Source: Ministry of Finance and Economic Development

36. In support of the delivery of essential educational, health and agricultural services in the economy, the wage bill for these sub-sectors accounts for 55% (US$1.2 billion) of the overall Civil Service wage bill of US$2.2 billion.

	Expenditure Outturn [US$m]	% of Outturn
Civil Service	**2,196.6**	**100%**
Education Sector	915.2	42%
Health Sector	214.3	10%
Agricultural Sector	74.6	3%
Rest of Service	992.6	45%

Source: Ministry of Finance and Economic Development

37. The 2016 employment costs bill also accommodated outstanding December 2015 employment costs of US$138.4 million, as well as

payments for the 13th Cheque amounting to US$177.8 million for the previous fiscal year.

38. Prevailing over the challenges related to the financing of Zimbabwe’s relatively high and unsustainable Public Service Wage Bill, therefore, calls for implementation of already identified further significant reform measures.

39. This will also address the challenge related to cash flows, which periodically necessitated the rescheduling of pay dates of the public service, grant-aided institutions and pensioners.

Financing

40. In 2017, the constrained fiscal space, left little discretion for Government to accommodate inescapable additional pressures without increasing recourse to available domestic sources of borrowing for both operational, as well as Zim Asset development projects and programmes.

41. This was also against the background of absence of external financial Budget support.

42. The combination of inescapable expenditure requirements and despite the revenue over-performance of US$170.0 million, left public finances with a borrowing requirement of US$2.7 billion.

Borrowing Requirements

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue (US$m)	933.6	2 339.1	2 921.0	3 495.8	3 741.0	3 727.2	3 737.1	3 502.2	3 870.8
Expenditure (US$m)	898.1	2 143.0	2 898.9	3 505.3	3 987.4	3 911.6	4 119.6	4 923.2	6 568.1
Requirements	**35.5**	**196.1**	**22.1**	**-9.6**	**-246.4**	**-184.4**	**-382.5**	**-1421.0**	**-2 698.1**

Source: Budgets and Revenue Departments

43. Inescapable expenditure pressures that gave rise to larger borrowing requirements over the past year were on account of the need to improve agriculture performance, water and power projects, among others.

44. In addition, interest payments were US$207.7 million, against a target of US$180.0 million. Domestic interest payments amounted to US$140.0 million (67.4%) and foreign interest payments of US$67.7 million (32.6%).

GROSS DOMESTIC PRODUCT

45. The economy is estimated to have grown by 3.4% in 2017 up from less than 1% recorded in 2016. The recovery is on account of the favourable agriculture season that resulted in bumper harvest, increased mining activity especially diamond, gold and chrome and the recovery in electricity generation at Kariba Dam hydro-electricity station.

	2010	2011	2012	2013	2014	2015	2016	2017
GDP by Industry Growth Rates	**12.7**	**15.4**	**14.8**	**5.5**	**2.1**	**1.7**	**0.6**	**3.4**
Agriculture and forestry	7.2	1.4	7.8	-2.6	23.0	-5.2	-3.6	14.6
Mining and quarrying	37.4	24.4	8.0	11.7	-3.4	0.4	8.2	8.5
Manufacturing	2.0	13.8	5.3	-0.6	-5.1	0.2	-4.0	1.0
Electricity and water	19.5	6.4	0.3	5.0	5.4	-5.7	-23.4	10.7
Construction	14.1	65.1	23.5	3.9	6.9	4.0	4.9	2.2
Distribution, Hotels and restaurants	8.8	4.3	4.3	3.9	2.5	3.8	7.6	1.3
Transportation and communication	4.7	0.0	6.7	7.0	1.1	4.9	-3.2	2.4
Financial, banking and insurance activities	-18.8	-4.1	49.2	14.2	-21.9	5.5	10.2	0.0
Government public administration,	72.0	61.9	36.2	7.2	7.5	-0.8	4.4	0.8
Real estate activities	4.9	48.9	59.0	0.7	4.8	11.0	3.1	2.2

46. Aggregate demand was on the increase as indicated by growing revenues in particular, valued added tax; as well as Government expenditure.

47. Improvements on the reliability of power and water supply also contributed significantly to the positive performance of the economy.

48. However, the last quarter of 2017 was characterised by price increases owing to speculative tendencies driven by foreign currency shortages causing inflationary pressures.

Agriculture

49. The 2016/17 agriculture season recorded a bumper harvest especially for maize owing to timely coordinated interventions led by Government, in partnership with the private sector, coupled with the normal to above normal rainfall pattern.

50. Government interventions were under the auspices of *'Command Agriculture'* for maize and wheat, and the Vulnerable Households Input Support Scheme for grain, Cotton Input Support Scheme and, among other interventions.

51. The above schemes were complemented by contract farming arrangements as well as own financing initiatives, resultantly, the area planted for most crops increased significantly.

52. Consequently, the sector is estimated to have grown by 14.6% recovering from a decline of -5.5% in 2016.

Crop and Livestock Output (000 Tons)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Agriculture	**31.1**	**33.5**	**8.4**	**4.3**	**-2.6**	**26.3**	**16.5**	**-5.5**	**14.6**
Tobacco (flue cured)	*58.6*	*123.4*	*132.9*	*144.5*	*166.6*	*216.0*	*198.9*	*202.3*	*190*
Maize	*1 240.0*	*1 328.0*	*1 452.0*	*968.0*	*798.6*	*1 456.0*	*742.2*	*511.0*	*2 155*
Beef	*93.0*	*85.7*	*78.4*	*77.5*	*78.2*	*74.0*	*76.0*	*86.0*	*74*
Cotton	*211.0*	*270.0*	*250.0*	*350.0*	*143.0*	*143.8*	*105.0*	*30.0*	*75*
Sugar cane	*2 544.7*	*2 974.0*	*3 264.6*	*3 925.5*	*3 472.8*	*4 400.8*	*4 399.0*	*4,044 0*	*4 350*
Poultry	*42.0*	*46.9*	*65.3*	*69.0*	*102.7*	*138.1*	*151.0*	*130.0*	*121.0*
Groundnuts	*216.0*	*186.0*	*231.0*	*120.0*	*86.7*	*135.0*	*88.9*	*73.7*	*139.0*
Wheat	*48.0*	*41.5*	*53.1*	*33.7*	*39.2*	*58.7*	*62.3*	*61.7*	*160.0*
Dairy (m lt)	*56.3*	*58.8*	*63.0*	*67.2*	*65.6*	*66.7*	*71.9*	*78.0*	*83.0*
Soybeans	*115.0*	*70.0*	*84.0*	*70.5*	*76.9*	*84.7*	*57.9*	*47.7*	*36*
Tea	*13.0*	*15.0*	*25.0*	*24.5*	*24.5*	*24.5*	*14.0*	*17.7*	*19*
Pork	*7.1*	*7.1*	*8.9*	*9.1*	*9.4*	*8.4*	*10.9*	*10.7*	*10.1*
Barley	*40.0*	*44.0*	*44.0*	*44.0*	*47.2*	*19.5*	*18.0*	*13.0*	*12*
Sheep & goats	*3.2*	*3.2*	*6.4*	*8.3*	*7.6*	*8.0*	*6.1*	*10.5*	*8.9*

Source: Macroeconomic Team (MOFED, RBZ, MoAMID and ZIMSTAT).

Command Agriculture'

Maize

53. During the 2016/17 agriculture season, 172 000 hectares of land was put under the *'Command Agriculture'* Programme out of the total area of 1.8 million hectares for maize at a cost of US$90 million.

54. As a result, about 460 000 tons of maize from the Programme were delivered to GMB with recoveries standing at US$50 million as at March 2018.

55. The Programme enabled the country to be food secure having harvested about 2.2 million tons of maize of which about 1.2 million tons was delivered to GMB.

Wheat

56. In 2017, Government extended the *'Command Agriculture'* Programme to wheat with the aim of reducing the related import bill. As a result, about 32 016 ha were contracted under the Programme complemented by 11 830 ha under private contractual arrangements.

57. The target of 70 000 ha could not be reached owing to delays in maize harvesting due to high moisture content, worsened by shortage of functional combine harvesters in the country.

58. Consequently, wheat deliveries to GMB for the year stood at 186 000 tons up from delivery levels of 62 000 tons recorded in the previous year.

59. Of the US$35 million extended to farmers through the Programme, US$13 million was recovered with efforts still underway to recover the outstanding amounts.

'Command Agriculture' Recoveries

60. While the recoveries are still below 60%, Government is taking measures to ensure all farmers honour their obligations without debt write offs of the past.

61. A team is already in the field following up on defaulters to remind them of the need to repay their debts through other sources of finance or at least repay using the 2018 harvest.

62. It remains Government's appeal to all beneficiaries to be supportive of Government initiatives aimed at reviving the economy while capacitating the farmers by providing affordable finance by repaying their outstanding debts so that, others can also benefit from the facilities.

Cotton Input Support Scheme

63. Cotton output increased from 30 000 tons in 2016 to 75 000 tons in 2017 owing to Government intervention to revive the crop. Government supported small scale farmers with free inputs to the tune of US$42 million complemented by private contractors.

64. This has a gone a long way in reviving the ginning and lint industries which were about to collapse. The crop also supported livelihoods to people in drier Regions of the country.

Tobacco

65. During the 2016/17 agriculture season, tobacco deliveries to the auction floors stood at 190 million kgs valued at about US$559 million. The deliveries were lower than the 202.3 million kgs valued at US$595 million delivered during the same period in 2016.

66. This is despite the fact that the total area put under tobacco at 110 000 hectares, was higher than that of 2016 at 102 000 hectares. The lower output of tobacco is on account of the excessive rains experienced during the season which affected yields.

67. However, tobacco exports in 2017 went up to 183 million kgs valued at US$904 million from 163 million kgs valued at US$129 million in 2016.

68. Tobacco remains one of the major foreign currency earner for the country, hence the decision by Government to consider the crop under the 'Command Agriculture' Programme for the coming 2018/19 season.

Milk Production

69. Milk production remained on growth trajectory having grown by 2% in 2017 to 66 million litres for formal producers up from 65 million litres recorded in the previous year. However, this level of production remains inadequate to meet the national demand which is around 120 million litres per year.

70. The Dairy Revitalization Strategy, which, in part, entails the training and capacitation of farmers by the Zimbabwe Association of Dairy Farmers Association (ZADF), as well as the sharing and fusion of knowledge and expertise among farmers has helped a lot to revive the cattle herd.

2017/18 Agriculture Season Developments

71. The 2017/18 season was not as envisaged, characterized by late onset of rainfall in some parts of the country, the mid-season dry spell as well as shortage of inputs. However, the second half of the season except for the month of January, experienced above normal rainfall which is expected to increase production for crops that were not affected by dry spell and the late planted.

72. The current season is expected to benefit from ongoing supportive programmes such as Special Maize Programme, Vulnerable Household Input Scheme and Cotton Input Scheme.

73. However, the sector's growth prospects is threatened by some downside risks which include excess rains and floods experienced in some areas, temporary shortages of top dressing fertilizers, and the outbreaks of pests and diseases.

74. Actual developments in the sector for the current agricultural season performance will be better informed by the First and Second Round Crop Assessment Surveys already underway.

75. However, initial observations point to a reduced land under some crops compared to the previous years

Mining

76. The mining sector remains one of the major drivers of the economy with growth estimated at 8.5% in 2017. The major drivers of this growth were more than anticipated output for gold, chrome and diamonds.

77. For gold, small scale miners continue to play a pivotal role in their contribution to total gold production, which now stands at about 52% up from 42% in the previous year. Their role is being

enhanced by Government supportive interventions in areas of finance and mechanization.

78. Diamond production is being spurred by the ongoing recapitalization of the ZCDC which is enabling conglomerate mining for valuable gems.

79. However, the sector faced the challenge of acute shortage of foreign currency for procurement of spare parts and consumables, stifling the sector to reach its potential.

Mineral Production

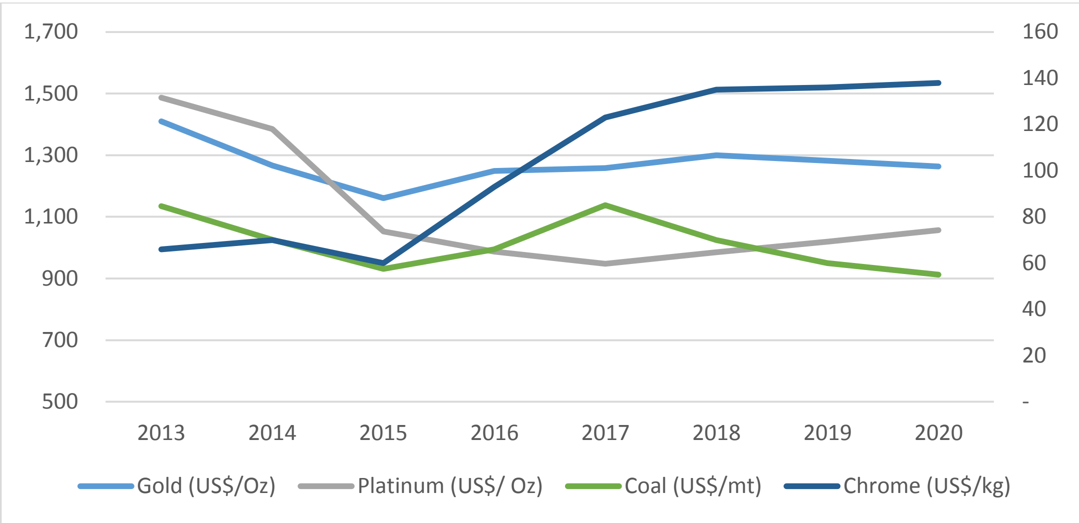
	2009	2010	2011	2012	2013	2014 Est	2015 Est	2016	**2017**
Black Granite (000) \t	162	165	168	171	174	180	182	214	215
Chrome (000) \t	201	517	599	408	450	511	267	304	1 500
Coal (000) \t	1606	2 668	2 922	2 564	4 980	6 345	4 200	2 972	3 500
Cobalt \t	39	58	174	195	319	358	355	408	450
Copper \t	3 572	4 629	6 555	6 665	8 275	8 261	8 262	9 101	9 336
Gold \kg	4 966	9 620	12 949	14 743	14 065	15 347	20 200	22 742	24 500
Graphite \t	2 463	741	7 252	7 022	6 934	6 853	6 362	5 622	7 200
Iridium \t	209	254	398	412	524	544	548	598	650
Nickel \t	4 858	6 134	7 992	7 899	14 057	16 633	16 109	17 743	17 700
Paladium \kg	5 355	6 916	8 422	8 136	10 153	10 137	10 138	12 222	12 400
Phosphate \t	0	56 656	46 047	33 774	6 100	6 100	25 527	28 317	28 600
Platinum \kg	6 848	8 639	10 827	10 524	13 066	12 483	12 564	15 110	15 500
Rhodium \kg	568	727	940	891	1146	1140	1147	1322	1 500
Ruthenium \kg	413	555	823	787	1012	983	989	1174	1 300
Diamonds (000) carats	1 306	3 000	8 719	12 015	9 589	4 773	3 214	1 746	2 500

Source: MOFED, RBZ, Ministry of Mines, Chamber of Mines, 2017

80. However, some minerals such as nickel, copper and platinum growth under-performed than anticipated.

81. Also, subdued international mineral prices for major crops such as platinum, gold and silver negatively impacted the production performance of some minerals.

Selected International Mineral Prices



` *Source: World Bank*

82. The sector is the major export earner with mineral exports amounting to US$2.5 billion of the US$4.2 billion total exports for the year. This is an increase from US$2.2 billion recorded during the preceding period, with gold and PGMs being the major contributors.

83. However, the sector's contribution to the fiscus remains low at 5.3% of total revenue though it is an improvement from 2.2% recorded the previous year.

Mining Sector Revenue (US$m)

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Government Revenue	934	2,339	2,921	3,496	3,741	3,727	3,737	3,502	**3,870**
Mining Revenue contribution Fiscus	50.6	154	161.3	245.8	185.2	335.9	139.9	75.7	**205.5**
(%) of Total Revenue	5.4	6.6	5.5	7	4.8	9	3.7	2.2	**5.3**

Source: Ministry of Finance and Economic Development

Outlook

84. Chrome production is expected to continue to increase following the successful re-distribution of claims reclaimed by Government.

85. Major gold producers are carrying out major expansion projects which are expected to drive gold production by primary producers. This is expected to be complemented by activities of small scale producers which have been on growing trend benefitting from the utilisation of various facilities offered to the sector by Fidelity Printers and Refiners (FPR).

86. Coal output is also expected to surpass the initial target following entrance of new players supported by the ongoing recapitalisation of the traditional major producer, Hwange Colliery Company Limited (HCCL) which will enable it to acquire new equipment for underground mining.

Manufacturing

87. The manufacturing sector is estimated to have grown by 1% in 2017, slightly higher than 0.9% registered in the previous year

despite decline in capacity utilisation to 45.1% in 2017 from 47.4% recorded in 2016.

88. Volume of manufactured output grew by 5.5% in 2017 while firms also expanded their capacities resulting in slight fall in capacity utilisation.

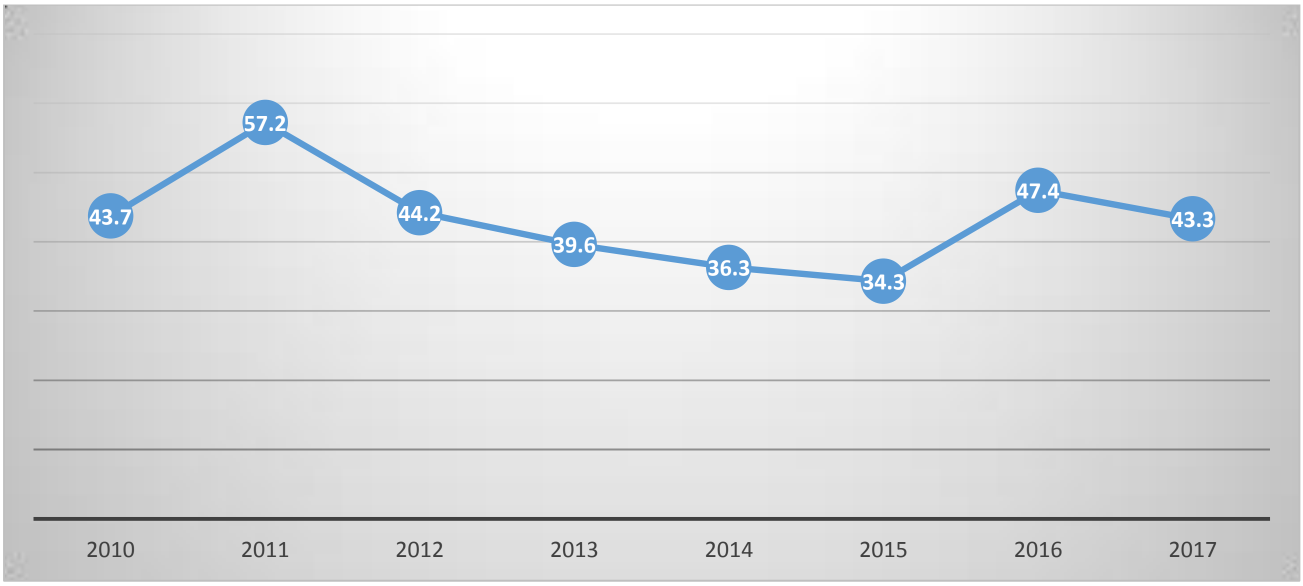
89. Some of the sectors that experience decline in capacity utilisation include sub-sectors such as non-metallic mineral products, wood and furniture, transport and equipment production and petroleum products.

90. Sub-sectors such as textile, clothing and footwear, foodstuffs, plastics and packaging, registered an increase in capacity utilisation.

Manufacturing Average Capacity Utilisation by Sub Sector

Sub-Sector	2016 Average Capacity Utilization (%)	2017 Average Capacity Utilization (%)
Chemical and Petroleum Products	43.6	36.1
Drinks, Tobacco and Beverages	52.4	51.2
Metal and Metal Products	37.5	37.1
Non-Metallic and Mineral Products	57.5	33.2
Paper, Printing and Publishing	52.9	52.2
Transport, Equipment	45	39.2
Wood and Furniture	57.8	45.2
Textile, Clothing and Footwear	46.0	50.0
Foodstuffs	56.1	56.3
Plastics and Packaging	52.9	53.0
Other Manufacturing	43.0	45.8

Manufacturing Capacity Utilisation Evolution (%)



Source: CZI

91. Government supportive measures such as the easy of doing business reforms, export incentives, duty exemptions on capital goods and the implementation fair competition policies helped the sector to register growth in 2017.

92. The sector is expected to remain on recovery path in 2018 with a growth of 2.5% expected bolstered by renewed investor confidence with the new dispensation.

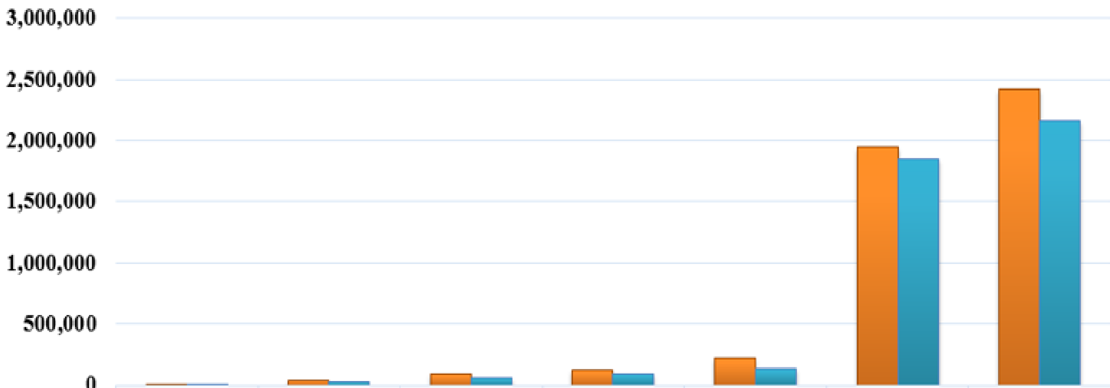
Tourism

93. Growth in the tourism sector was strong buoyed by an 8% growth in inbound tourism for Africa between 2016 and 2017 and improved destination image for Zimbabwe. The country registered a 12% growth in tourist arrivals from 2.2 million in 2016 to 2.4 million in 2017.

Source: Zimbabwe Tourism Authority

94. This growth was largely premised on a positive performance from all tourism source markets, as shown below.

Tourist Arrivals: 2016-2017



	MIDDLE EAST	OCEANIA	ASIA	AMERICA	EUROPE	AFRICA	TOTAL
2017	7,537	36,266	91,435	121,043	218,140	1,948,509	2,422,930
2016	4,783	28,796	55,364	92,625	137,183	1,848,935	2,167,686
Change	58%	26%	65%	31%	59%	5%	12%

Source: Zimbabwe Tourism Authority Report

95. There was a notable 61% increase in visits on business between 2016 and 2017, which partly reflects renewed interest in Zimbabwe for business opportunities while leisure tourists and those visiting friends and relatives, continue to dominate.

96. Destination connectivity is central to the tourism industry, arising from the fact that tourists have to first travel to the destination before they can spend. The introduction of more airlines and more routes in 2017, coupled with the road rehabilitation programme by Government improved air connectivity and road access, necessary for tourism growth.

97. The first half of 2017 saw Ethiopian Airlines, South African Airways and Kenyan Airways (KQ) flying into Victoria Falls, increasing connectivity to Addis Ababa, Nairobi and Capetown.

98. Promotion of domestic tourism remains a priority to grow the sector and downstream industries. This is due to the fact that the local clientele dominates occupancies in local hotels, with a national average 82% of clientele being the locals except for Victoria Falls.

99. Whilst occupancy rates remain subdued, Bulawayo and Victoria Falls registered increases. Victoria Falls continues to enjoy relatively higher occupancy levels for most of the year, dominated by foreign tourists, with the highest being 75% in September 2017.

100. In the outlook, Zimbabwe is set to register strong growth in tourism, if the current momentum of aggressively marketing the destination, improve international relations and maintain stable socio-political and macroeconomic environment is maintained.

101. Investments into the tourism industry under auspices of the Tourism Special Economic Zones are also expected to provide a catalyst for tourism growth.

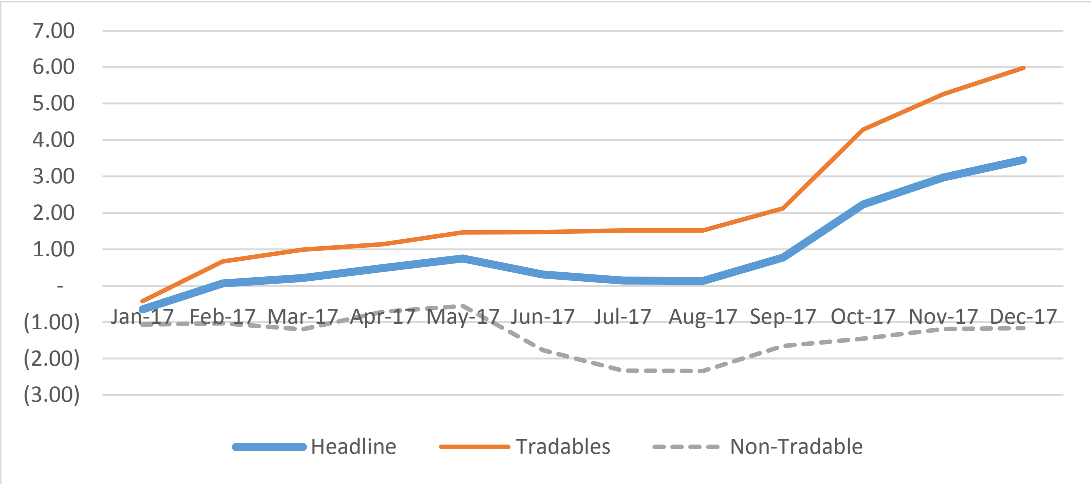
102. The provision of innovative incentive packages, increased destination connectivity and the relaxation of a restrictive visa regime are also expected to support the tourism industry.

Prices

103. After inflation moved out from the negative territory in February, it remained in the range of 0-1% until August 2017 before surging till the year end.

104. This, consequently pushed up the 2017 annual average inflation to 0.9% from -1.6% recorded in 2016. Despite the sudden rise in inflation, it remains in sync with other macroeconomic fundamentals and also below the Southern African Development Community (SADC) macro-economic convergence threshold of 3-7%.

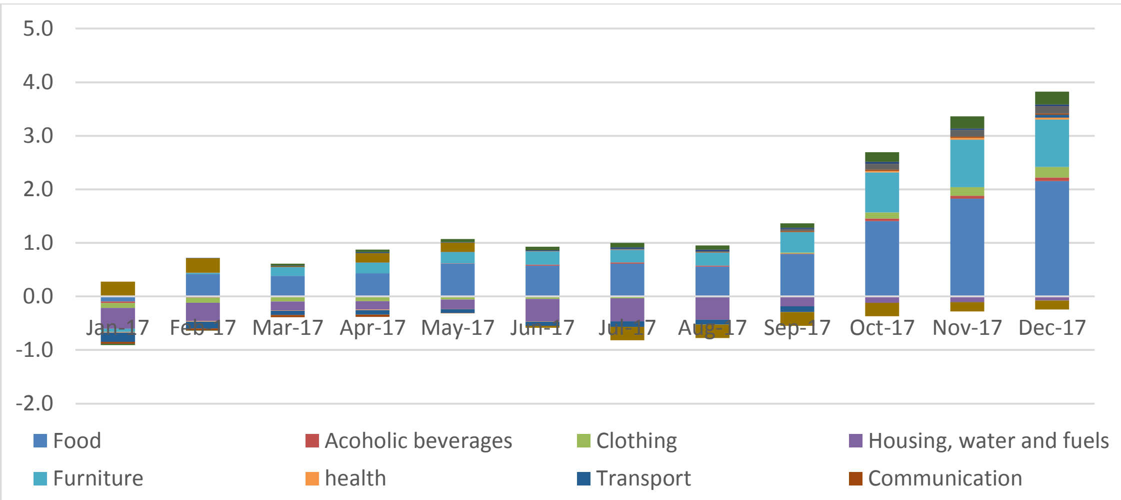
Inflation Profile for 2017



Source: ZIMSTAT

105. Inflation in 2017 was mainly on account of rising prices of tradable goods, particularly food, clothing and furniture. Mild deflation was, however, experienced among non-tradable terms such as education, transport and housing.

Inflation Drivers



Source: ZIMSTAT

106. The inflationary pressures experienced during the last quarter of 2017 were mainly due to speculative and profiteering tendencies,

pass-through effects of parallel market premiums on foreign exchange, and shortage of some imported basic commodities.

107. In the outlook, inflation is expected to stabilise within the range of 3-5% in response to positive sentiments coming from investors, growing confidence among consumers, and shrinking of parallel market exchange premiums.

FINANCIAL SECTOR

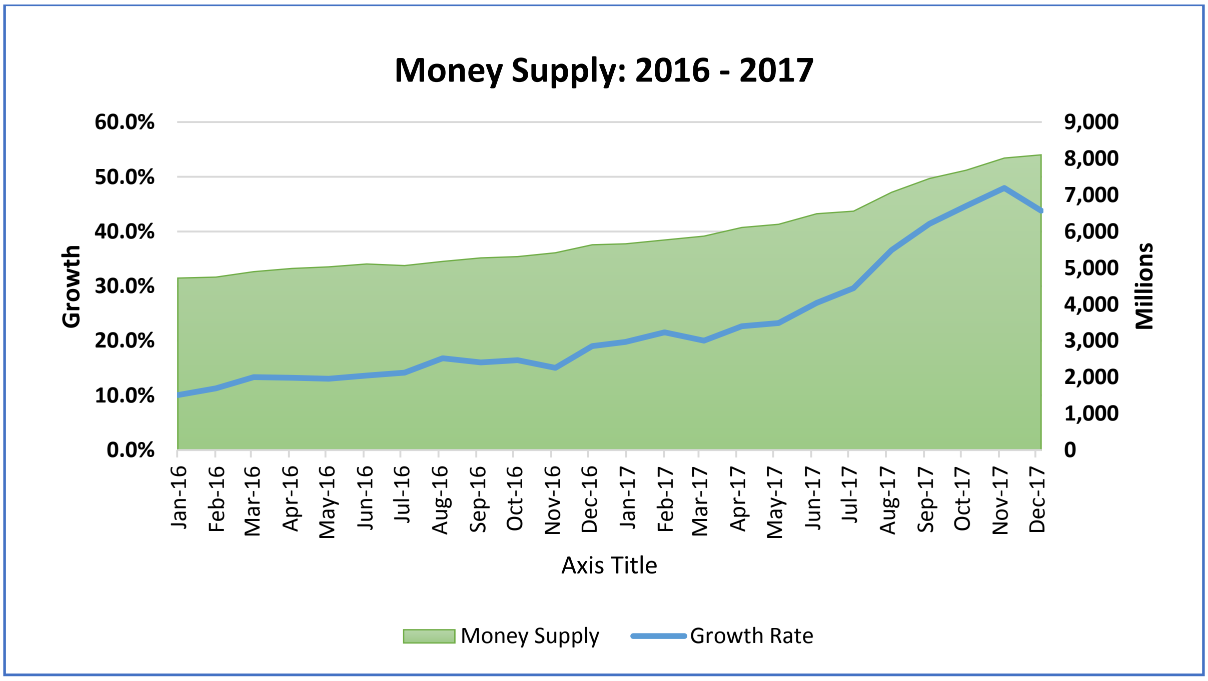
Money Supply

108. Broad money supply as measured by deposits, increased by 43.7% in 2017 from US$5.63 billion in December 2016 to US$8.02 billion in December 2017.

109. The increase was largely attributable to a growth of 56.29% in demand deposits, and an increase of 9.13% in negotiable certificate of deposits. However, a decrease in 4.75% in time deposits did partially offset the increase.

110. In December 2017, bond notes and coins in circulation stood at US$331.94 million an increase of 473% from US$70.17 million in December 2016.

111. The chart below depicts the money supply trend.



Source: RBZ

Domestic Credit

112. In tandem with the growth in money supply domestic credit recorded an annual increase of 43.07% from US$7.48 billion in December 2016, to US$10.70 billion in December 2017.

113. The growth was largely due to an expansion of 73.91% in net credit to Government which stood at US$6.26 billion in 2017, up from US$3.60 billion.

114. Contrary, to the growth in net credit to government, credit to the private sector increased by marginally, 5.83% from US$3.51 billion in December 2016, to US$3.72 billion in December 2017.

115. There is an element of crowding out effect by the government on the private sector.

Non-Performing Loans

116. The asset quality of the banking sector improved during the year 2017 with non-performing loans declining to 7.08% as at 31 December 2017 from 7.87% as at 31 December 2016.

117. The decline in non-performing loans is attributed to enhanced credit management systems by banks during the year, coupled with improvements benefiting from disposal of non-performing loans to ZAMCO.

Stock Exchange

118. The stock market was characterized by subdued trading in the first half of the year and strong bullish sentiments in the second half of the year.

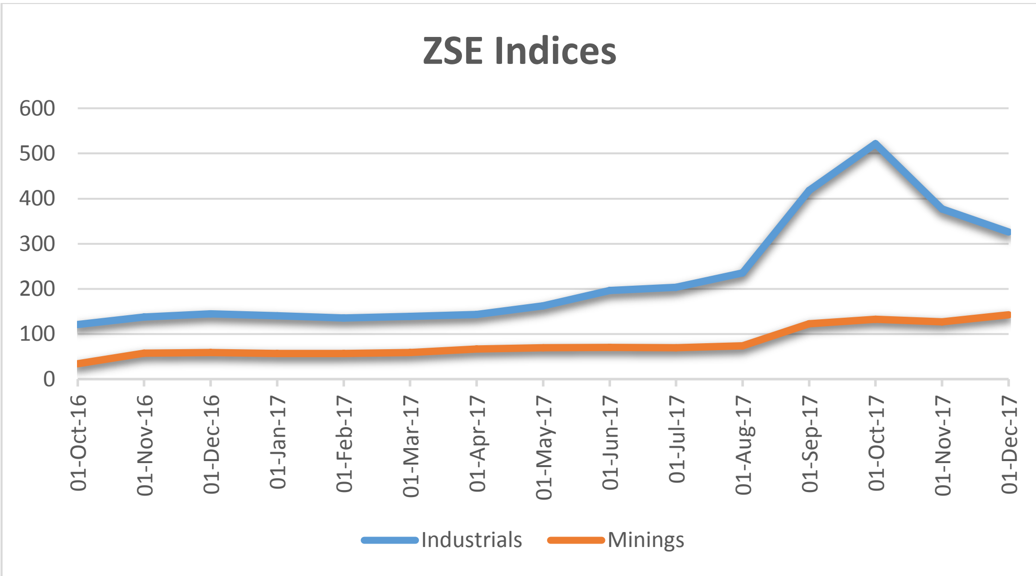
119. The industrial index opened the year at 144.63 points on 2 January 2018, and hovered around 140 points for four months until May 2017 when it reached 162.0 points. The index continued on an upward trajectory and reached an all-time high of 521.9 points.

120. The mining index opened the year at 56.3 points and steadily rose to 122.6 points in September 2017 and closed the year 2017 firmer at 142.4 points.

121. In 2017, the industrial index rose by 130.2% whilst the mining index rose by 152.9%.

122. Accordingly, total market capitalization increased by 139.0% from US$4.008 billion on 2 January 2017 to US$9.580 billion on 31 December 2017 while on 7 November 2017, it surpassed the US$15 billion mark.

The Zimbabwe Stock Exchange Indices



Source: ZSE

123. The growth was largely attributable to a number of factors namely; hedging against anticipated inflation, increased liquidity owing to proceeds from maturing Treasury Bills, increased retail participation, fear of de-dollarization, among others, while the market losses were

due to market correction during the last two months of the year 2017

Non-Bank Financial and Capital Markets

Performance of the Insurance Industry by Premium Income

124. Notwithstanding the challenging macroeconomic environment during the year under review, the industry reported a 5% growth in premium income as shown in the table below:-

Class of Business	**31 December 2016 ($'000)**	**31 December 2017 ($'000)**	**Annual Growth rate**
Non-life Insurers	128,699	143 856	12%
Non-life reinsurers	67,976	60, 189	-11%
Life Assurers	340,806	361,241	6%
Life Reinsurers	5,915	6,664	13%
Funeral Assurer	38,618	39,981	4%
Total Net Premium Income	**582,014**	**611,934**	**5%**

Insurance Industry Assets

125. The Insurance industry assets grew by 167% largely due to the bullish trend on the stock market during the period up to November 2017.

	Assets ($000)		
Class of Business	**31 Dec 16**	**31 Dec 17**	**Annual Growth (%)**
Non-life Insurers	197,428	238,379	21%
Non-life Reinsurers	132,847	155,309	17%
Life Assurers	1,808,837	2,445,284	35%
Life Re-assurers	35,705	36,755	3%
Funeral Assurers	61,799	70,173	14%
Total Assets	**2,236,616**	**2,945, 900**	**32%**

126. Life assurers registered the biggest growth in assets of 35%, followed by non-life (17%) and non-life reinsurers. However, there is a marked decrease in assets in 4th quarter compared to 3rd quarter due to the self-correction of the stock market.

Prescribed Assets

127. The levels of compliance with the minimum prescribed assets requirements as at 31 December 2017 was as shown in the table below:-

Class of Business	**Minimum compliance Requirement**	**Actual Level of Compliance as at 31 December 2017**	**Status**
Life Assurers	7.5%	12%	C
Life Reinsurers	7.5%	9%	C
Funeral Assurance	7.5%	2%	NC
Short-Term (non-life) Insurers	5%	11%	C
Short-Term (non-life) Re-insurers	5%	11%	C

Stand Alone Funds	10%	3.70%	NC
Self-Administered Funds	10%	9.54%	NC
Insured Funds	10%	9.04%	NC

128. Insurance companies were largely compliant with prescribed asset requirements except funeral insurers. Systemically, important funeral insurers who were non-compliant were Doves (3%), Moonlight (1%) and First Funeral (0.2%).

129. Engagements with non-compliant funeral companies are on-going in order to ensure compliance with Statutory Instrument 26 of 2016 on prescribed asset requirements.

Minimum Capital Requirements

130. Minimum capital requirements for insurance business were reviewed upwards through Statutory Instrument 95 of 2017 gazetted in August 2017. The increase in minimum capital requirements was meant to improve the industry's underwriting capacity and enhance overall soundness of the sector.

131. The S.I. sets the parameters on the quality of the capital that an insurer ought to hold for regulatory purposes, and disqualifies non-admissible assets that are considered not to be readily available to meet an insurer's liabilities.

132. The table below shows the new minimum capital requirements as per S.I. 95 of 2017:

Class of Business	MCR (US$)	Number Entities	Non-Compliant Entities
Non-life Insurance	2,500,000	23	3
Composite Insurers	7,500,000	6	0
Non-Life Reinsurers	5,000,000	2	0
Composite Reinsurers	7,500,000	12	2
Life Assurance	5,000,000	9	2
Funeral Assurance	2,500,000	2	0

133. As at 31 December 2017, insurance companies were conducting self-assessments to establish their compliance status. Non-complying entities were submitting their compliance roadmaps to IPEC. The verification of declared capital is still underway and is expected to be completed by June 2018.

Commission of Inquiry

134. The Report on the Commission of Inquiry into the conversion of insurance and pension values from the ZW$ to the US$ was concluded during the year 2017 and is now ready for submission to Parliament.

Financial Inclusion to Insurance Sector

135. In line with the National Financial Strategy (2016 to 2020), IPEC developed a Micro-insurance framework to guide the development

of insurance products that are tailor-made to the needs of the low income people. The framework also recognises the need to come up with less rigorous licensing regime for providers of micro-insurance products.

136. Going forward, IPEC will be launching a micro-pensions framework earmarked for the informal sector and low income consumers.

Pension Contribution Arrears

137. As at 31 December 2017, pension contribution arrears amounted to $575 million up from $545 million as at 30 September 2017.

138. Some sponsoring employers are failing to remit contributions to pension funds since the adoption of the multicurrency regime. This relates mainly to local authorities and parastatals which indirectly rely on funding from the fiscus through their respective line ministries.

Financial Inclusion

139. Currently, different thematic working group are being coordinated by the Central bank in implementation of the National Financial Inclusion Strategy.

140. Outputs from the NFIS in 2017 include the licensing of a deposit taking microfinance bank for women and the finalization of the Microfinance Bill, which will increase the license period for

Microfinance Institutions from one (1) year to five (5) years for Credit Only institutions and perpetual licenses for Deposit Taking institutions

TB Issuances

141. During the year 2017, Treasury Bills amounting to US$2.65 billion were issued to finance the budget deficit of US$3.42 billion.

142. Major items financed by the US$2.65 billion were Grain Procurement (US$655.78 m), Command Agriculture Inputs Scheme (US$429.94 m), Presidential Input scheme (US$220.3 m), ZESA (US$211.76 m), NSSA (US$180.9 m), and capitalisation of public entities (US$85.81).

143. The Overdraft facility from the Central Bank financed the budget deficit amounting to US$427.54 million. As a result, the overdraft facility stood at US$1.35 billion by end of December 2017, constituting 39% of 2016 Government Revenues.

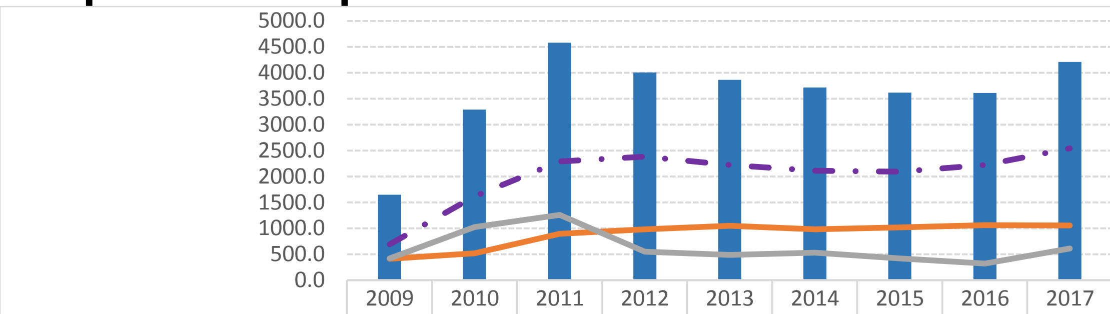
144. This is notwithstanding a statutory limit of 20% stipulated in section 11 (1) of the RBZ Act.

External Sector Developments

145. In 2017, merchandise exports increased by 16.6%, from US$3.6 billion to US$4.2 billion, benefitting from export support measures instituted by the Government and recovering global mineral prices.

146. The country's export basket was largely composed of mineral exports, notably, gold and platinum, which accounted for about 48% of total export receipts.

Composition of Exports

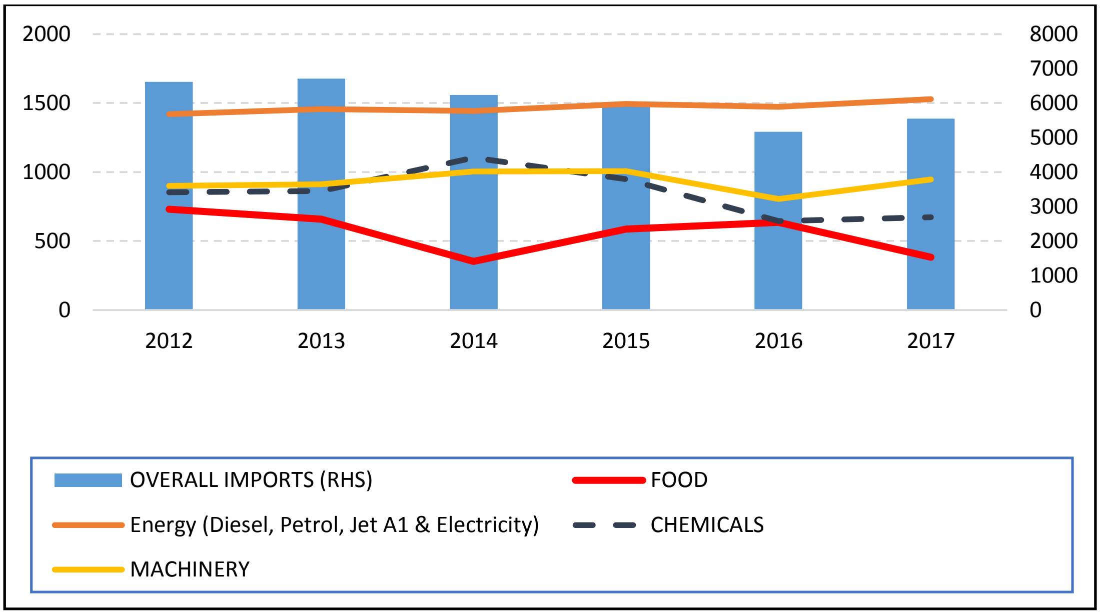


	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Exports	1644.9	3289.8	4576.0	4004.0	3861.8	3717.2	3614.2	3607.1	4207.5
Mineral Exports	691.3	1614.9	2286.5	2384.9	2223.3	2113.4	2089.2	2222.6	2544.3
Agriculture Exports	413.3	519.3	893.8	979.6	1047.5	981.2	1015.9	1064.3	1052.8
Manufacturing Exports	421.8	1026.9	1259.4	549.2	487.0	532.8	417.1	320.2	610.4

Source: RBZ and ZIMSTAT

147. On the other hand, imports for 2017 stood at US$5.5 billion, representing 7.5% increase from US$5.2 billion recorded in 2016, giving a trade deficit of US$1.3 billion.

Imports (US$ Million)



Source: RBZ and ZIMSTAT

148. The surge in the country's import bill was a result of increased imports of fuel (diesel, petrol and Jet A1), machinery and manufactured goods.

CONCLUSION

149. Economic performance in 2017faced a number of challenges, particularly on the fiscus and the current account.

150. These challenges were noted and are integral issues being addressed in the context of the 2018 National Budget with respective progress being captured through the Mid-Year Reviews as well the Zim Asset progress reports.

Ministry of Finance and Economic Development
May 2018