ZIMBABWE

2019

PRE-BUDGET STRATEGY PAPER

Towards a Prosperous & Empowered Upper Middle Income Society By 2030

October, 2018

Harare

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TREASURY

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INTRODUCTION

1. The 2019 Budget Strategy Paper (BSP) presents proposals on key polices and priorities, with a view of facilitating discussions and preparations of the 2019 National Budget and the Medium Term up to 2021.

2. The objective is to build consensus on interventions required under the forthcoming Budget, guided by the Vision 2030, which seeks to transform Zimbabwe into an Upper Middle Income status.

3. To facilitate the debate and assist in understanding the macro-fiscal situation, the BSP provides an update on both international and domestic economic developments during the first half of 2018 and outlook to year-end. Further, based on certain assumptions, mid-term macro and fiscal projections for 2019—2021 are provided.

4. Key challenges and risks in the outlook are also underlined in support of formulating appropriate macro and fiscal strategic objectives and targets.

5. This is followed by proposals on strategic and prioritised interventions for attaining the policy objectives and targets under the 2019 National Budget.

Macro-economic Challenges

6. Notwithstanding the positive growth trend of the economy since 2016, the growth trajectory faces a number fundamental risks which are related to the following:

- Unsustainable high budget and current account deficits;
- Foreign currency and cash shortages;
- Emerging inflation pressures;
- Low productivity and capacity utilisation;
- Infrastructure deficiencies; and
- Inadequate and low quality public service delivery.

7. At the centre of the above risks, is failure to live within means and hence the prevailing unsustainable high budget deficit, with destabilising implications not only to the financial sector but to the rest of the economy.

8. In particular, the financing of the deficit primarily through domestic borrowing with the use of instruments such as Treasury bills, overdraft with the Central Bank, arrears and loans from the private sector has turned unsustainable.

9. Such financing mechanisms are crowding out the private sector and hence constraining production. This is also increasing money supply

in the economy, translating into exchange rate misalignment and inflationary pressures now at 4.9%, as at August 2018.

10. Similarly, the high deficit has ignited expansion of domestic debt from US$275.8 million in 2012 to current levels of US$9.5 billion, against US$7.4 billion external debt. This brings total public debt to US$16.9 billion.

11. In the context of the above developments, macro-economic and fiscal stabilisation becomes critical and urgent and should invariably target the fiscal deficit. A stable macro-economic environment is an essential precondition for growth and increasing living standards for our people.

12. It allows individuals, businesses and the Government to plan more effectively for the future and also increases investment opportunities which in turn support and raise productivity.

Transitional Stabilisation Programme: October 2018 – December 2020

13. The 2019 National Budget represents the first steps in the implementation of the Transitional Stabilisation Programme (TSP), focusing on stabilising the macro-economy and the financial sector, while at the same time removing investment bottlenecks.

14. Further, the Budget will identify quick-wins for stimulating exports and growth, setting the necessary foundation for longer term developmental thrust under future National Development Strategies: 2021—2025 and 2026-2030.

MACRO-ECONOMIC PERFORMANCE AND OUTLOOK

Global Economy

15. Global growth is projected at 3.9 % for both 2018 and 2019 from 3.8% in 2017, driven by both industrialised and emerging economies. The partial recovery in commodity prices should allow conditions in commodity exporters to gradually improve.

Global Economic Growth & Outlook (%)

	2015	2016 Est.	2017 Proj.	2018 Proj.	2019 Proj.
World Output	**3.2**	**3.2**	**3.6**	**3.9**	**3.9**
Advanced Economies	**2.1**	**1.7**	**2.2**	**2.4**	**2.2**
US	*2.6*	*1.5*	*2.2*	*2.9*	*2.7*
Euro Area	*2.0*	*1.8*	*2.1*	*2.2*	*1.9*
Japan	*1.2*	*1.0*	*1.5*	*1.0*	*0.9*
Emerging Market & Developing Economies	**4.1**	**4.3**	**4.6**	**4.9**	**5.1**
China	*6.9*	*6.7*	*6.8*	*6.6*	*6.4*
India	*7.6*	*7.1*	*6.7*	*7.3*	*7.5*
Sub-Saharan Africa	**3.4**	**1.4**	**2.6**	**3.4**	**3.8**
*Zimbabwe**	*1.7*	*0.6*	*4.8*	*6.3*	*9.0*
Latin America & the Caribbean	**0.1**	**-0.9**	**1.2**	**1.6**	**2.6**

*Source: IMF World Economic Outlook, *Ministry of Finance and Economic Development and RBZ projections*

Advanced Economies

16. In advanced economies, growth in 2018 is projected at 2.4%, down 0.1% from earlier projections in April 2018. Growth forecast of 2.2% in those economies for 2019, however, remains unchanged. Although the growth remains generally strong, particularly in the United States, a slow-down in the Euro Area, Japan, and the United Kingdom is anticipated.

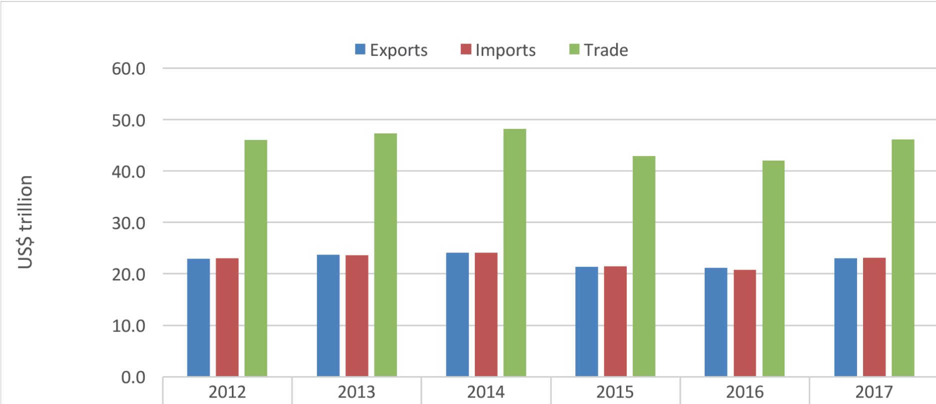
Emerging Economies

17. Aggregate growth in emerging economies is expected to maintain its robust performance, growing at 6.5% in 2018–19. Growth in China is projected to moderate from 6.9% in 2017 to 6.6% in 2018 and 6.4% in 2019, as regulatory tightening of the financial sector takes hold, while external demand softens.

18. The rising tensions over tariffs between the US and China also pose downside risks to global trade and prospects for higher economic growth.

19. World trade is, however, anticipated to remain positive, supported by a pickup in investment, particularly among advanced economies, and increased manufacturing output in Asia, consistent with strong consumer confidence and improved aggregate demand.

World Trade in Goods and Services



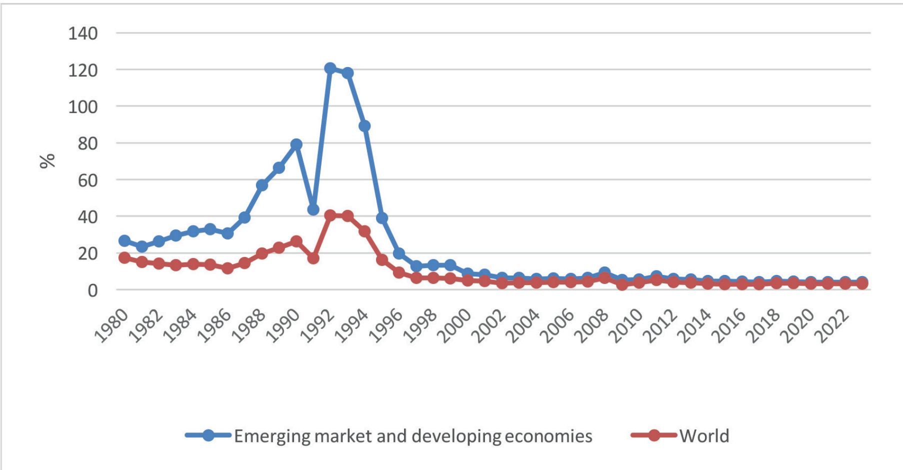
	2012	2013	2014	2015	2016	2017
Exports	23.0	23.7	24.1	21.4	21.2	23.0
Imports	23.1	23.6	24.1	21.5	20.8	23.1
Trade	46	47	48	43	42	46

Source: WTO

Inflation

20. Inflationary pressures continue to be exerted by the increase in oil prices due to, among other factors, the extension of the OPEC Agreement to limit production, and geopolitical tensions in the Middle East.

World Inflation



Source: IMF WEO, April 2018

Risks

21. Weak outturns in the first quarter in several large economies, as well as the moderation in high-frequency economic indicators, and tighter financial conditions in some vulnerable economies, pose further downside risks to the global economic growth.

Regional Economic Developments

Sub-Saharan Africa

22. Sub-Saharan Africa average growth is projected to rise from 2.8% in 2017 to 3.4% in 2018 and 3.8% in 2019, spurred by stronger global growth, higher commodity prices, and improved market access.

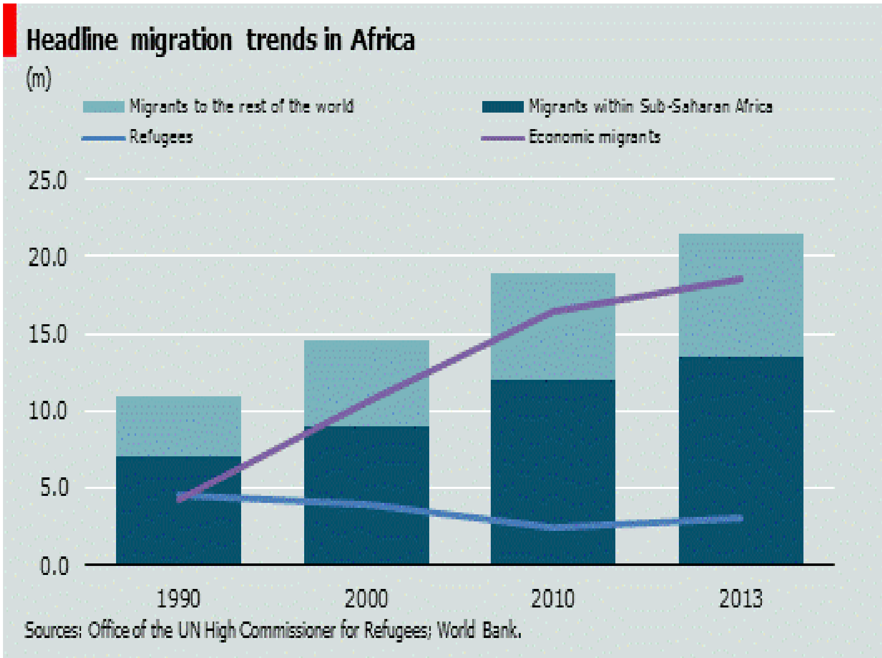
23. External imbalances have narrowed, but progress with fiscal consolidation has been mixed and vulnerabilities are rising, with about 40% of low-income countries in the region now in debt distress or assessed as being at high risk of debt distress.

24. Oil exporting countries are, however, still dealing with the legacy of the largest real oil price decline since 1970, with growth well below past trends and rising debt levels.

25. Several other economies, both resource intensive and non- resource intensive and some fragile states, continue to grow at 6% or more,

while a number of countries are suffering from internal conflicts, with record numbers of refugees and internally displaced people.

Refugees in Sub-Saharan Africa



Adapted from the Economic Intelligence Unit Publication

26. However, the two largest economies in the region, Nigeria and South Africa, remain below trend growth, weighing heavily on prospects for the region.

	Estimates		Projections	
	2016	2017	2018	2019
Global	3.2	3.7	3.9	3.9
Advanced Countries	1.7	2.4	2.4	2.2
Emerging Markets and Developing economies	4.4	4.7	4.9	5.1
Sub-Saharan Africa	1.5	2.8	3.4	3.8
Nigeria	-1.6	0.8	2.1	2.3
South Africa	0.6	1.3	1.5	1.7

Source: IMF WEO, April 2018

27. The risks to the outlook for the region depend on the decisiveness of policy actions, with the uptick in oil prices, impending elections, as well as political transitions in many countries reducing appetite for difficult reforms which could lead to further policy slippages.

28. However, the regional outlook could significantly strengthen on the back of an improved business environment and strengthened confidence, if the uncertainties in countries undergoing political transition dissipate and countries that are still in need of adjustment make decisive progress toward macro-economic stabilisation.

Southern Africa Development Community

29. Economic performance for the past six years has slowed down and remains low across the Southern Africa Development Community (SADC) region. This has seen growth in real GDP subdued at 1.4% in 2016 and 1.9% in 2017.

30. The marginal increase in real GDP was on account of the favourable weather conditions experienced in most parts of the region, including improvements in commodity prices, as well as the recovery in global economic performance.

31. In the outlook, growth for the SADC region is projected at 2.0% and 2.4% in 2018 and 2019, respectively.

32. However, weak investment and business confidence continue to weigh on the downside, affecting sectors that include the financial services, resulting in rising non-performing loans.

33. Further downside risks to the region's growth prospects include, among others, the predicted occurrence of the drought inducing El Niño weather phenomenon during the 2018/2019 season, which influences climatic patterns in many parts of the world, including Southern Africa.

International Commodity Price Developments

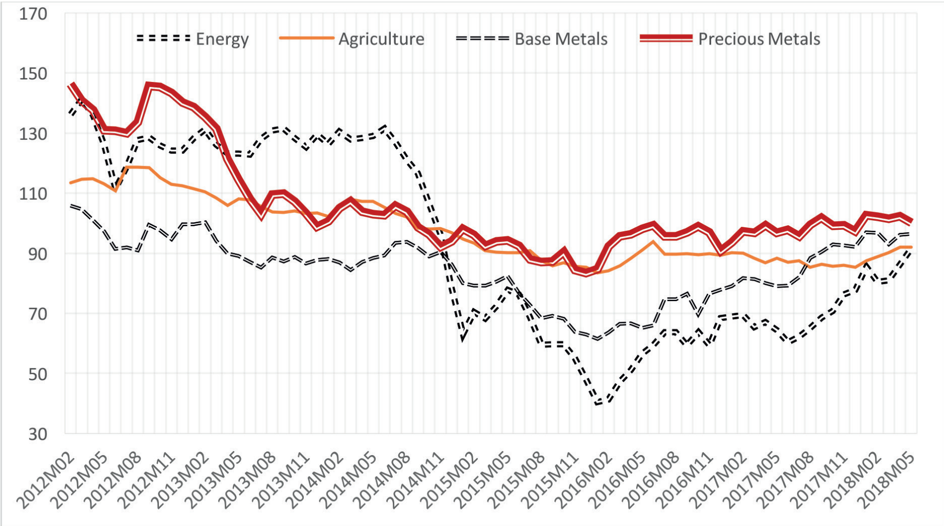
34. Renewed accelerating global growth and rising demand are driving broad-based price increases for most commodities in 2018 and the forecast of higher commodities prices in the medium term.

35. During the first half of 2018, commodity prices indicated signs of recovery despite the performance remaining generally below the 2011 peaks. More specifically, energy, base metals, precious metals and agriculture surged between January and May 2018, largely due to strong demand, amid tightening global supplies.

36. This development bodes well for commodity exporters, including Zimbabwe, on the one hand but may signal increasing inflation pressures through higher energy prices, particularly from fuel imports.

37. Commodity price indices for the period from January 2012 to May 2018 are shown below.

Commodity Price Indices (2010 = 100)



Source: World Bank

Domestic Economy

38. Under the New Dispensation, there is gradual restoration of business confidence, with many investment enquiries from all continents. During the first half of 2018, the Zimbabwe Investment Authority received 165 applications worth US$15.8 billion, over and above other investment enquiries with various line ministries and other individual companies.

39. Government is pursuing the various investment inquiries with the objective of increasing the share of external investment from US$1.8 billion anticipated in 2018 to over US$2 billion in 2019.

40. Meanwhile, the economy is expected to surpass the initial Budget growth projection of 4.5% to 6.3% in 2018, riding on strong performance in sectors of agriculture (12.4%), mining (26%) and construction (14%).

41. Growth in agriculture is premised on solid performance of cash crops such as tobacco, cotton, sugar cane and soya beans. The first half performance in minerals such as gold, coal and chrome also point to better prospects for 2018 compared to 2017.

42. Service sectors such as transport, communication and distribution are also anticipated to make average contributions to GDP growth of 5%.

Real GDP Growth Rates

	2016	2017	2018
GDP by industry at market prices, constant prices	0.6	4.8	6.3
Core activities	0.7	9.2	11.2
Agriculture and forestry	-3.6	14.8	12.4
Mining and quarrying	8.2	8.0	26.0
Manufacturing	-4.0	1.0	2.8
Electricity and water	-23.4	10.7	3.2
Construction	4.9	7.7	14.0
Distribution, Hotels and restaurants	7.6	11.4	6.0
Supportive services	2.1	2.2	3.5
Transportation and communication	-3.2	2.6	5.0
Financial, banking and insurance activities	10.2	1.6	1.5
Government public administration, education and health	4.4	-0.9	-1.0
Administrative and support service activities	7.4	-2.9	0.1
Education and training	0.9	1.0	-4.6
Human health and social work activities	5.9	0.2	7.6
Private's education and health	2.0	0.8	-1.9

	2016	2017	2018
Households-related services	8.6	-0.2	2.4
Real estate activities	3.1	7.7	5.5
Other service activities	14.0	-6.2	-0.4
Private households with employed persons	6.2	-5.8	0.0

Source: Ministry of Finance, Reserve Bank of Zimbabwe, ZIMSTAT

43. However, the quality and sustainability of this projected growth is susceptible to a number of risks relating to rising inflation, foreign currency shortages and depressed investment, among others.

44. From the demand side of the economy, the 6.3% growth in 2018 has been driven by Government spending (4.6%), largely in the form of grain and inputs procurement, extension of loans to parastatals, and to some extent, hard infrastructure projects such as dam construction and roads rehabilitation.

45. In addition, growth was also spurred by slight recovery in consumption (0.9%), particularly by households, coupled with improved growth in exports and imports (1.1%).

Contribution to Growth

	2017	2018	2019	2020	2021
GDP by expenditure, constant prices	4.8	6.3	9.0	9.7	11.5
Final consumption	-6.0	3.3	10.4	10.2	12.8
Household	-11.3	3.2	10.7	9.1	12.7
Government	7.2	0.4	0.1	1.5	0.5
NPISH	-1.8	-0.3	-0.4	-0.4	-0.4
Gross capital formation	8.3	4.4	0.5	1.5	1.3
Gross fixed capital formation	8.3	4.4	0.5	1.5	1.3

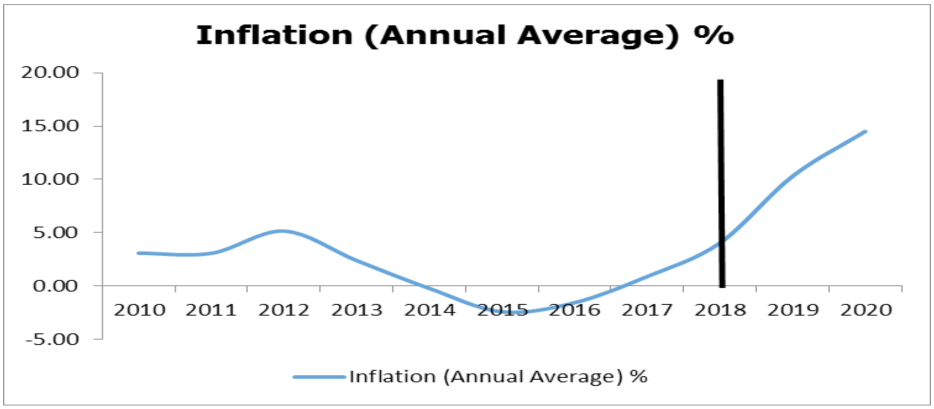
	2017	2018	2019	2020	2021
Government	5.8	4.6	-3.8	0.4	-0.1
Other sectors	2.5	-0.2	4.2	1.2	1.4
Changes in inventories	0.0	0.0	0.0	0.0	0.0
Trade balance	2.4	-1.4	-1.9	-1.9	-2.6
Exports of goods and services	3.8	1.1	2.9	4.2	5.0
Imports of goods and services	1.4	2.5	4.8	6.1	7.6

Source: Ministry of Finance, Reserve Bank of Zimbabwe, Zimstat

46. Investment by the private sector (-0.2%) is, however, expected to slow down from the previous year, owing to the crowding out effect associated with fiscal deficit financing.

Inflation

47. Rising money supply, occasioned by budget deficit financing, coupled with foreign currency shortages has seen a surge in inflationary pressures, during the first half of 2018. Annual inflation rose from 3.5% in January to 4.8% by August 2018, compared to -0.7% and 0.1% during the same period in 2017.



Source: Zimstat

48. Speculative inflation expectations are setting in, further heightening wage review pressures in both public and private sectors.

49. Firming international oil prices on account of OPEC output cuts and the escalation of geopolitical tensions in oil producing regions, as well as upside risks due to the depreciation of the South African Rand against United States Dollar, are also key factors fuelling inflation.

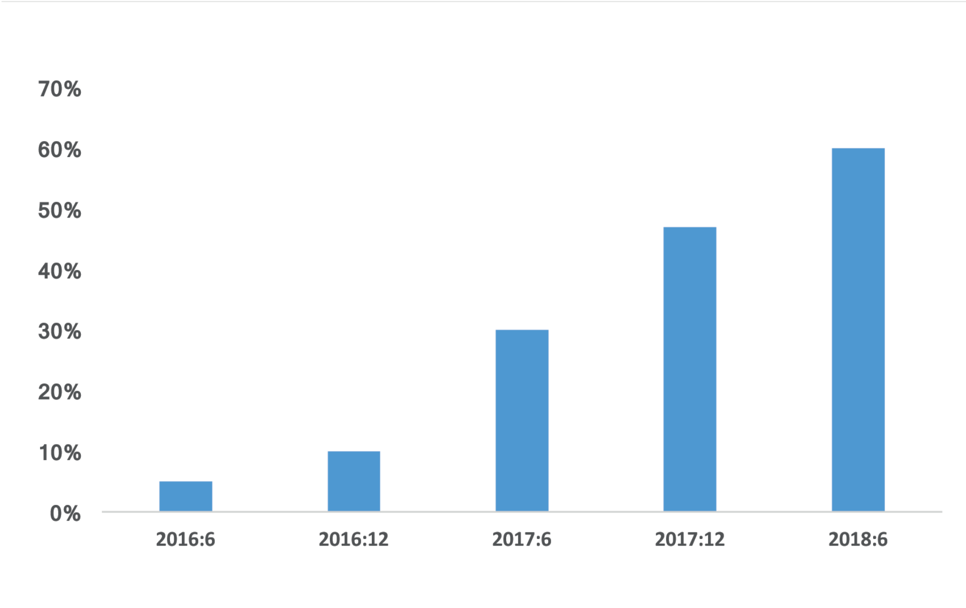
Emerging Parallel Market

50. The parallel exchange rate premiums have been on the rise, particularly from 2018, driven mostly by shortage of foreign currency against rising money supply that is not backed by US dollar cash.

51. This has given rise to speculative demand, as well as induced demand for US dollars as an asset. The eventual pass through effect of rising exchange premiums has been filtered into sudden price increases, particularly on goods.

52. The table below shows the developments in the parallel exchange rates between 2016 and 2018.

Parallel Exchange Rate Premium



Source: Reserve Bank of Zimbabwe

53. Assuming non-corrective measures, the parallel market will worsen and feed into inflationary pressures.

Public Finances

54. The 2018 National Budget provides for US$5.74 billion in total expenditure, with US$4.58 billion for current expenditures and US$1.16 billion for capital expenditure.

55. This was premised on projected revenues of US$5.07, billion giving a fiscal deficit of **US$672.2 million,** which is **3.5% of GDP.**

56. Revenue collections for the first half of the year amounted to US$2.51 billion against a target of US$2.21 billion, resulting in a positive variance of US$0.30 billion, representing a variance of 13% of budgeted revenue.

Monthly Public Finances: Jan – June 2018 (US$ million)

	Jan	Feb	Mar	Apr	May	Jun	Total
Total Revenues	**345.6**	**341.7**	**486.7**	**372.7**	**406.9**	**558.3**	**2,511.90**
Tax Revenues	324	322.7	459	361.1	374	531.4	2,372.20
Non-Tax Revenues	21.6	19	27.7	11.6	32.9	27	139.7
Grants							
Total Expenditures & Net Lending	**319.6**	**403.2**	**632.6**	**637.3**	**768.3**	**960.3**	**3,721.50**
Employment Costs	253.4	295.5	293.4	319.6	360.5	320.2	1,842.60
Operations & Maintenance	25.3	37.3	66.6	82	115.7	101.9	428.8
Interest	9.7	9.6	27.8	9.7	18	30	104.8
Capital Expenditures & Net Lending	31.2	60.8	244.9	226	274.1	508.2	1,345.20
Budget Balance	**25.8**	**-61.5**	**-146**	**-264.6**	**-361.4**	**-402**	**-1,209.50**

Source: Ministry of Finance & Economic Development

57. Total expenditures during the same period stood at US$3.72 billion against targeted expenditure of US$2.60 billion, implying an expenditure over-run of US$ 1.12 billion.

58. The cumulative budget deficit for the period January to June 2018 stands at US$1.21 billion **(4.7% of GDP),** against a cumulative target to June of US$388.7 million.

59. The huge deficit for the period to June is as a result of mainly unbudgeted expenditures relating to the following:

- Expenditures on the wage bill driven by pension disbursements amounting to US$39.2 million and review of health sector specific allowances, which led to an additional monthly bill of US$12 million, as well as filling of 2 282 nursing posts in the health sector;
- Support towards the agriculture input support schemes, US$616 million and grain procurement, US$81 million; and
- Capital expenditure towards roads of US$225 million, and dam construction of US$87.2 million, as well as capitalisation of public institutions of US$212 million.

60. Financing of the deficit was through Treasury bill issuances of which those done through the Bank amounted to US$548.3 million, while Non-bank amounted US$736.7 million.

61. Furthermore, lending to Government by Central Bank through the overdraft window increased by US$478.2 million for the period January to June 2018. Government also financed itself through accumulation of arrears, which stood at US$115.8 million as at June 2018.

Projection to December 2018

62. Revenues are projected to be US$5.7 billion which is in line with the first half performance. This comprises of US$4.7 billion tax revenues, US$466.0 million non-tax revenues, US$434 million retained revenues and US$100 million grants.

Revenues Projections to December 2018

	2016 US$ m	2017 US$ m	2018 US$ m
Total Revenue (Incl. Grants)	**3,501.9**	**3,812.9**	5,737
Tax Revenue	**3,237.0**	**3,565.6**	5,024
Personal Income Tax	735.8	723.7	850
Corporate Income Tax	338.2	365.0	840
Other Direct Taxes	187.0	207.4	275
Customs Duty	272.9	306.9	442
Excise Duty	641.9	706.6	893
Value Added Tax	963.2	1,092.1	1499
Other Indirect Taxes	98.1	163.8	225
Non Tax Revenue	264.8	242.7	279
Retained Revenue	-	-	434
Grants	-	-	-

Source: Ministry of Finance & Economic Development

63. Taking into account the expenditure developments to June, outturn to year end is estimated at US$8 billion against a budget of US$5.7 billion, implying an expenditure overrun of US$3.7 billion.

Expenditure Projections to December 2018

	2016 US$m	2017 US$m	2018 US$m
Total expenditure & net lending	4,902.3	6,568.1	8,061
Current expenditure	3,934.8	4,741.3	5,195
Employment costs	2,735.1	3,074.1	3,760
Wages & salaries	2,257.5	2,596.5	3,209
Pensions	477.6	477.6	551
Interest payments	120.2	207.7	316
Foreign	107.4	30.0	20
Domestic	12.8	177.7	296
Goods & services	328.5	900.2	1,120
Capital expenditure and net lending	967.5	1,826.8	2,866

Source: Ministry of Finance & Economic Development

64. The above position points to an overall fiscal deficit of US$2.3 billion (**9% of GDP**) by end of 2018, driven by the following:

- Unbudgeted review of salaries which is projected to require around, US$500 million;
- Grain procurement, US$475 million;
- Crop input support, US$650 million;
- Roads construction, US$350 million;
- Dam construction, US$40 million;
- Capitalisation of public institutions, US$460 million;
- Conduct of the 2018 Harmonised Election, US$10.9 million;
- School fees for children of War Veterans, US$10.7 million; and
- Support to hospitals, US$15.2 million.

65. Consequently, the fiscal deficit is expected to worsen the overdraft position at the Central Bank, which by 31 August was US$2.3 billion, which is 59.4% of the previous year’s revenue against 20% of the previous year’s revenues, as stipulated in the Reserve Bank Act.

66. The runaway Central Bank lending to Government is projected to reach US$2.5 billion which is 64.6% of the previous year’s revenues.

67. Pressure will also come from Treasury bill maturities in the short term (2018 to 2020) of US$4.1 billion, which is 55% of the total TBs maturities of US$7.5 billion to year 2033.

68. The above position has far reaching consequences in the economy in terms of Government crowding out private sector lending.

69. Additionally, continued payment of Government obligations through an overdraft will also worsen the liquidity challenges in the economy.

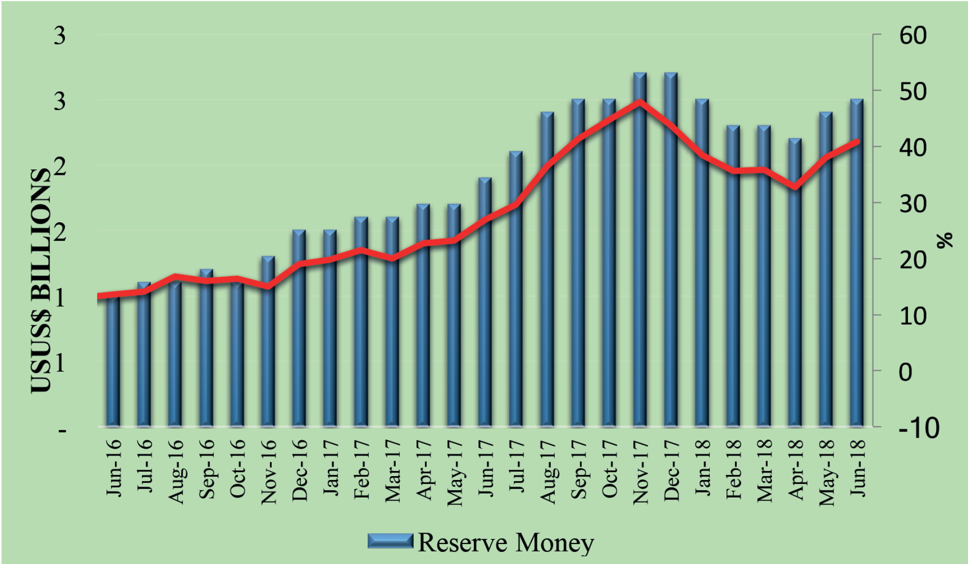
Financial Sector

70. The money supply stock stood at US$9.14 billion in June 2018, translating to a year on year growth rate of 40.81% from US$6.49 billion in June 2017.

71. Money supply growth rate peaked to 48.0% in November 2017, before easing to 32.7% in April 2018, due to mopping of excess liquidity by the central bank, through issuances of savings bonds.

72. However, the growth surged in May and June 2018, on the back of increased Government financing. This is illustrated in the graph below.

Level of Broad Money and Annual Growth



Source: Reserve Bank of Zimbabwe

73. Money supply is, therefore, projected to grow by 38.2% in 2018 compared to an initial projection of 20.14%. Growth in money supply has been largely driven by net claims on Government.

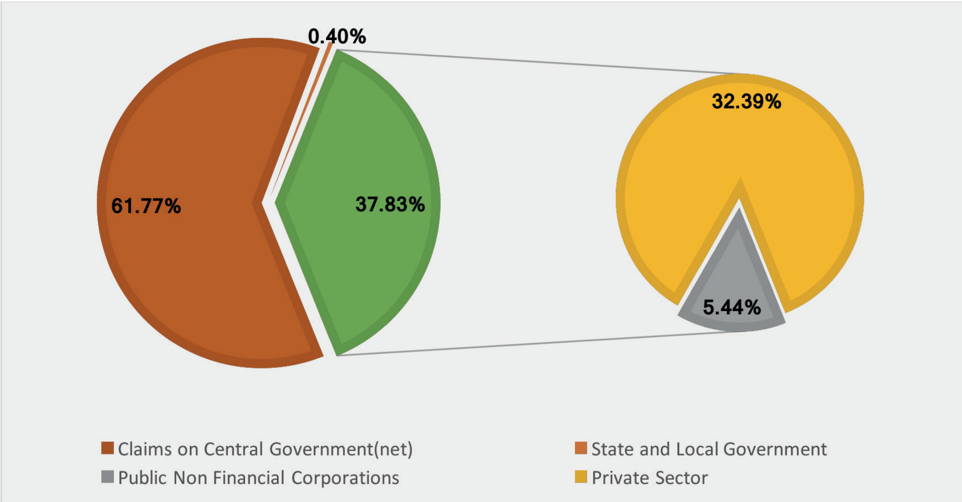
74. Lending to Government has largely been through the overdraft facility at the RBZ and banks' holding of Treasury Bills.

Domestic Credit

75. Net domestic credit recorded an annual increase of 47.34% in June 2018 to U$12 421.06 million. The growth in domestic credit was largely due to 73.92% in net claims on Government. High lending to Government continues to crowd out lending to productive sectors of the economy.

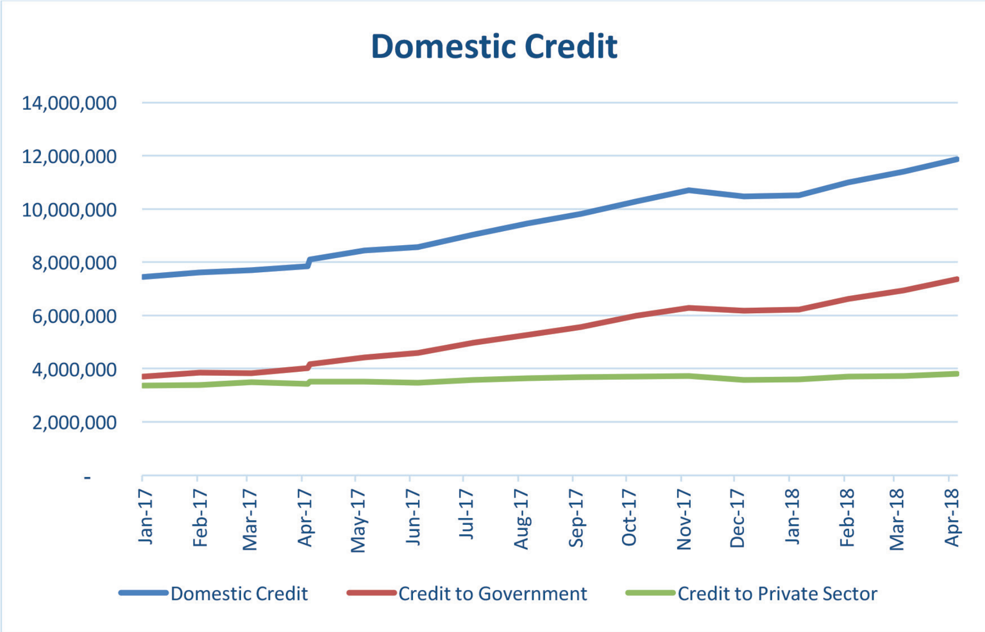
76. Over the period under review, credit to the private sector grew by 11.42%. The graph below shows that, as at June 2018, net credit to Government constituted 61.77% of domestic credit, compared to 32.39% for the private sector.

Structure of Domestic Credit



Source: Reserve Bank of Zimbabwe

77. By end of 2018, net domestic credit is expected at US$15.2 billion, a growth of 42.1% from the previous year, against 6.3% GDP growth as shown in the graph below.



Source: Reserve Bank of Zimbabwe

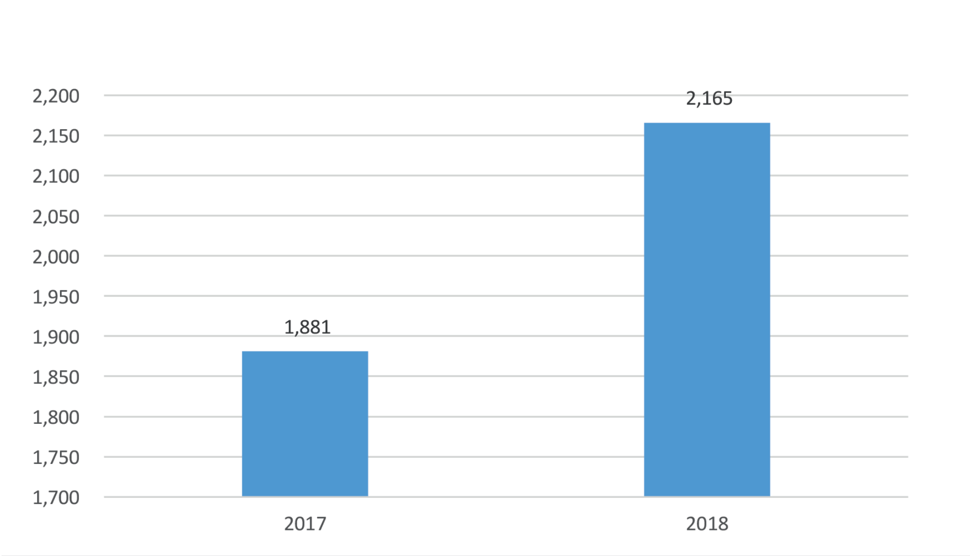
External Sector

Exports

78. During the first half of 2018, merchandise exports stood at US$2.2 billion, a 15.1%, increase from US$1.9 billion realised over the corresponding period in 2017.

79. The increase was underpinned by growth in gold, platinum, chrome and tobacco exports, on the back of favourable prices and increased production from these major commodities.

Merchandise Exports (US$m): Jan-Jun 2018

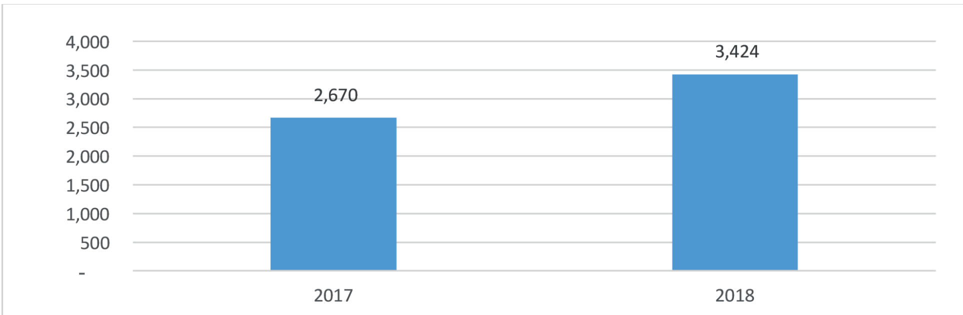


Source: Reserve Bank of Zimbabwe

Imports

80. Merchandise imports for the period January to June 2018 amounted to US$3.4 billion, a 28.3% increase from US$2.7 billion realised over the comparative period in 2017, as shown in figure below.

Merchandise Imports (US$m): Jan-Jun 2018



Source: Reserve Bank of Zimbabwe

81. Resultantly, the first half of 2018 experienced trade deficit of US$1.4 billion, reflecting a worsening position compared to the first half of 2017 deficit of US$789 million.

Major Exports and Imports

82. The bulk of the country's merchandise exports comprised, among others, gold, flue-cured tobacco, ferrochrome, nickel mattes/concentrates, chrome, and diamonds, contributing about 88% of export earnings for the period January to June 2018.

Commodity	Values (US$)	Shares
Gold	637 286 241	34%
Nickel mattes	282 873 384	15%
Nickel ores and concentrates	207 132 142	11%
Flue-cured tobacco (Virginia)	178 243 087	10%
Ferro-chromium	135 651 190	7%
Chromium ores and concentrates	54 391 194	3%
Industrial diamonds	40 090 123	2%
Jewelry	34 347 587	2%
Platinum	23 862 479	1%
Black tea fermented	16 160 843	1%
Granite	14 462 307	1%
Coke and semi-coke of coal	13 774 235	1%
Other products	229 225 188	12%
Total	**1 867 500 000**	

83. On the other hand the country's major merchandise imports were mainly dominated by fuels (24%), electricity (3%), maize (1%), medicines (1%) and vehicles (1%).

Major Import Commodities

Commodity	Values (US$)	Shares
Diesel	507 030 293	15%
Unleaded petrol	267 353 576	8%
Electrical energy	111 093 854	3%
Crude soya bean oil	64 657 839	2%
Rice	62 224 913	2%
Durum wheat	49 328 343	1%
Maize (Excluding Seed)	42 254 513	1%
Medicaments	40 666 809	1%
Vehicles	39 105 626	1%
Ammonium nitrate	34 690 001	1%
Aviation Spirit	32 495 502	1%
Urea	32 471 498	1%
Herbicides	30 911 784	1%
Other products	2 047 115 448	61%
Total	**3 361 400 000**	

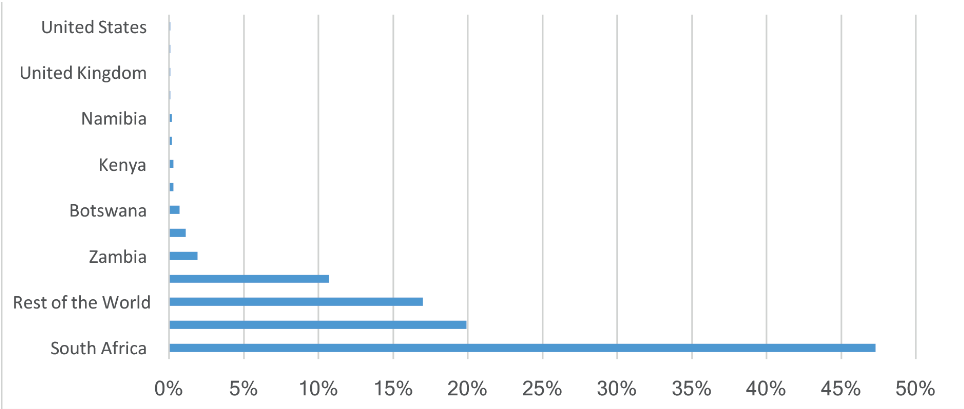
Source: Zimstat

Major Merchandise Export Destinations and Import Sources

84. The country's exports for the period January to June 2018 were mainly destined for South Africa, Asia and Europe. South Africa continues to be the major destination for the country's total merchandise exports, absorbing about 47%.

85. The country's major exports to South Africa include platinum group of metals (PGMs), gold and nickel, among others.

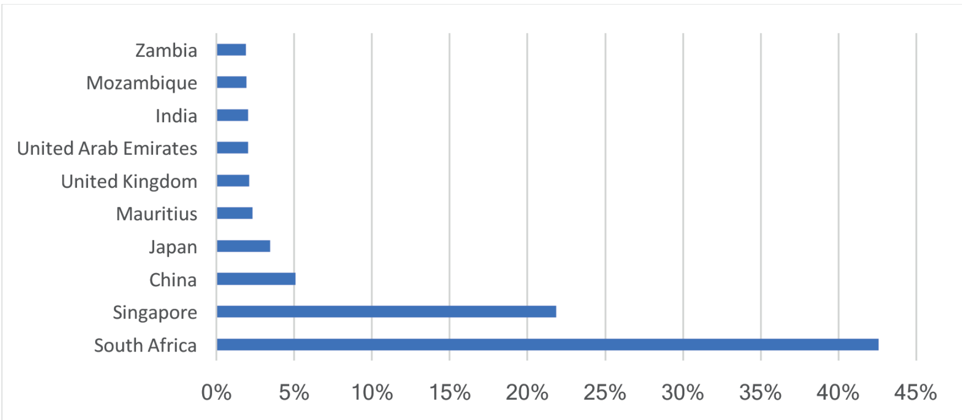
Major export destinations



Source: Reserve Bank of Zimbabwe & Zimstat

86. During the first half of 2018, the country sourced its imports mainly from South Africa, supplying the bulk of the country's imports at 43%. Other imports were sourced from Singapore (22%), China (5%), Japan (3%), among others.

Major Import sources for January- June 2018



Source: Reserve Bank of Zimbabwe & Zimstat

Outlook

87. Exports of goods and services are projected at US$5 billion in 2018, driven by mineral and tobacco exports.

Balance of Payment Summary

	2015	2016	2017	2018
Current account	**-1557.3**	**-591.3**	**-316.1**	**-751.9**
Exports	3964.2	4059.7	4705.2	5075.5
Imports	7503.9	6426.7	6689.9	7342.4
Primary income	-158.8	-178.3	-160.6	-136.4
Secondary income	2141.1	1954.1	1829.3	1651.4
Capital account (capital transfers)	**398.4**	**242.3**	**278.3**	**208.8**
Financial account	**-547.0**	**150.6**	**363.0**	**444.7**
Direct investment	399.2	343.0	246.0	470.3
Portfolio investment	122.8	-80.1	-100.9	124.3
Other investment	-1069.0	-112.3	217.8	-150.0
Overall balance	**-179.3**	**-73.5**	**-150.4**	**-122.4**
Financing	**179.3**	**73.5**	**150.4**	**122.4**

Source: Reserve Bank of Zimbabwe

88. On the other hand, the level of imports of goods and services into the country remains quite high. Overall, imports of goods and services are projected at US$7.3 billion in 2018.

89. The trade account deficit is, therefore, projected at US$2.3 billion in 2018, while the current account is expected at—US$751.9 million, which constitutes 3% of GDP.

Summarised Projections to end of 2018

90. Based on the above anticipated developments, the following baseline outlook is predicted by end of 2018.

Summarised Projections to December 2018

	2016	2017	2018
National Accounts (Real Sector)			
Nominal GDP at market prices (Million us$)	20549	22241	25775
Gross Capital Formation	2026.0	3225.5	4331.0
% of GDP	9.9	14.5	16.8
Real GDP Growth (%)	0.6	4.8	6.3
Inflation (Annual Average) %	-1.6	0.9	4
Per Capita Income	1437	1521	1720
Government Accounts			
Revenues (including Retained Revenue)	3502.2	3812.9	5736.9
% of GDP	17.0	17.1	22.3
Expenditures & Net Lending (million US$)	4923.2	6389.6	8060.8
% of GDP	24.0	28.7	31.3
Recurrent Expenditures	3955.7	4643.4	5195
% of GDP	19.3	20.9	20.2
Employment Costs	3230.8	3375.6	3759.6
% of GDP	15.7	15.2	14.6
Capital Expenditure & Net lending	967.5	1746.2	2865.8
% of GDP	4.7	7.9	11.1
Overall Balance	-1421	-2576.7	-2323.9
% of GDP	-6.9	-11.6	-9.0
Balance of Payments Accounts			
Exports (million US$)	4059.7	4705.2	5075.5
% of GDP	19.8	21.2	19.7
Imports (million US$)	6426.7	6689.9	7342.4
% of GDP	31.3	30.1	28.5
Current Account Balance (million US$)	-591.3	-316.1	-751.9
% of GDP	-2.9	-1.4	-2.9

Source: Ministry of Finance & Economic Development, Reserve Bank of Zimbabwe, Zimstat

91. The prevailing and expected environment of macro-economic imbalances presents constraints to the rapid economic development of the country, as public deficits fuel unsustainable large fiscal borrowing requirements and money supply growth, in the process consuming scarce foreign reserves and undermining currency stability.

92. Weaknesses in the macro-economic situation have also resulted in a low savings rate, high public debt, and dilapidated infrastructure which is contributing to higher domestic production costs for business.

93. Full restoration of macro-economic balance will necessitate a phased approach, spanning over the short, medium, and longer term, in order to lay the foundation for sustainable economic growth.

FISCAL OBJECTIVES AND TARGETS FOR 2019

94. In view of the above constraints, the 2019 National Budget first and foremost, targets strengthening fiscal responsibility and management of Government expenditures in order to create an appropriate environment for increased Budget financing of development programmes that enable and enhance the economy's overall productive activities.

95. A revisit to progress in the implementation and adherence to fiscal anchors becomes important in strengthening fiscal accountability and responsibility.

Fiscal Anchors

96. The 2018 National Budget emphasised on macro and financial risks emanating from no-compliance with some borrowing legal requirements namely:

- Debt Ceiling as a ratio of GDP; and
- Central Bank lending to the State.

97. It further introduced two more fiscal anchors meant to contain the budget deficit and hence unsustainable borrowing, as well as strengthening budgetary support for development projects.

98. These four fiscal anchors are integral in improving fiscal management for the good of the economy.

99. The 2019 BSP, therefore, reiterates commitment to the following fiscal anchors and targets, and further proposes penalties for non-compliance with PFM Act fiscal management provisions.

Budget Balance

100. The 2019 Budget Strategy Paper proposes drastic reduction of the Budget deficit to 5.2% of GDP in 2019, and subsequently to 3.5% in 2020 and 3.1% of GDP by 2021, making us comply with the SADC threshold of below 3% of GDP.

Budget Balance

	2017	2018	2019	2020	2021
Nominal GDP at market prices (US$ million)	22 241	25 775	28 927.6	32 766.1	37 426.9
Overall Balance	-2 576.7	-2 323.9	-1 504.0	-1 132.4	-1 151.3
% of GDP	-11.6	-9.0	-5.2	-3.5	-3.1

Source: Ministry of Finance & Economic Development

Debt to GDP Ratio

101. International best practice and SADC adopted thresholds for sustainable public indebtedness is pegged at 60% of GDP.

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

103. By end of 2018, 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.

Debt to GDP Ratio

Year	2014	2015	2016	2017	2018	2019	2020	2021
Debt to GDP Ratio	53%	58%	55%	59%	70%	65%	61%	48%
Debt (US$ million)	8421	9339	11257	13120	18076	18853.6	19977.9	17836.4
GDP (US$ million)	15834	16072	20549	22241	25775	28927.6	32766.1	37426.9

Source: Ministry of Finance & Economic Development

104. Hence, it is prudent that this threshold be observed, a situation which will also contain our budget deficits.

Limiting Government Borrowing from the Central Bank

105. 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.

106. 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%.

107. 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

108. 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.

109. Re-orientation of expenditures from consumptive spending to developmental priorities will be key under the 2019 Budget.

110. In 2017, the capital Budget allocation was at 8% of GDP and is expected to reach 11% of GDP in 2018. This is far below best practice thresholds of close to 25% of GDP and over 30% of total Budget, required for promoting sustainable development.

111. Moreover, a bigger part of the capital Budget was directed towards non infrastructure programmes such as agriculture financing and Public Enterprises capitalisation.

Capital Budget

	2017	2018 Proj	2019 Proj	2020 Proj	2021 Proj
Capital Budget (US$ million)	1746.2	2865.8	2091.6	2166.5	2300.8
Capital Budget (% of Budget)	26.1	35.6%	26.4%	25.8%	26.7%
Capital Budget (% of GDP)	7.9	11.1	7.2	6.6	6.1

Source: Ministry of Finance & Economic Development

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

Legal Framework

113. Key to the restoration of fiscal sustainability and discipline is compliance and adherence to the Public Finance Management (PFM) Act and Regulations.

114. In this regard, Treasury will finalise the PFM regulations to enforce compliance with PFM Act. Similarly, Treasury will propose penalties for non-compliance through the 2019 Budget.

KEY MACRO-ECONOMIC AND FISCAL PROJECTIONS

115. In line with the above fiscal objectives and targets, the following macro-fiscal framework is being proposed.

Macro-Fiscal Framework

	2017	2018	2019	2020	2021
National Accounts (Real Sector)					
Nominal GDP at market prices (US$ million)	22 241	25 775	28 928	32 766	37 426.9
Gross Capital Formation	3 225.5	4 331	5 343.4	6 287.5	7 604.3
% of GDP	14.5	16.8	18.5	19.2	20.3
Real GDP Growth (%)	4.8	6.3	9	9.7	11.5
Inflation (Annual Average) %	0.9	4	5	5	5
Per Capita Income	1 521	1 720	1 883	2 081	2 319
Government Accounts					
Revenues (including Retained Revenue)	3 812.9	5 736.9	6 411.5	7 259.4	7 451.5
% of GDP	17.1	22.3	22.2	22.2	19.9
Expenditures & Net Lending (US$ million)	6 389.6	8 060.8	7 915.5	8 391.8	8 602.8
% of GDP	28.7	31.3	27.4	25.6	23.0
Recurrent Expenditures	4 643.4	5 195	5 823.9	6 225.3	6 302
% of GDP	20.9	20.2	20.1	19.0	16.8
Employment Costs	3 375.6	3 759.6	3 908	3 973	4 038
% of GDP	15.2	14.6	13.5	12.1	10.8
Capital Expenditure & Net lending	1 746.2	2 865.8	2 091.6	2 166.5	2 300.8
% of GDP	7.9	11.1	7.2	6.6	6.1
Overall Balance	-2 576.7	-2 323.9	-1 504	-1 132.4	-1 151.3
% of GDP	-11.6	-9	-5.2	-3.5	-3.1

	2017	2018	2019	2020	2021
Balance of Payments Accounts					
Exports (US$ million)	4 705.2	5 075.5	5 653.2	6 428.6	7 554.2
% of GDP	21.2	19.7	19.5	19.6	20.2
Imports (US$ million)	6 689.9	7 342.4	8 397.6	9 363.8	10 875.5
% of GDP	30.1	28.5	29.0	28.6	29.1
Current Account Balance (US$ million)	-316.1	-751.9	-839.7	-1092.5	-1396.1
% of GDP	-1.4	-2.9	-2.9	-3.3	-3.7
Deposit Corporations Survey					
Broad Money (US$ million)	8 108.2	11 912.5	14 623.2	17 097.9	19 530.0
Growth %	43.8	46.9	22.8	16.9	14.2
Domestic Credit (US$ million)	10 699.4	15 231.8	18 512.2	21 509.0	24 106.8
Growth %	43.0	42.4	21.5	16.2	12.1
Credit to Private sector (US$ million)	4 421.9	5 871.1	7 925.0	9 696.9	12 587.0
Growth %	13.9	32.8	35.0	22.4	29.8
Credit to Government (US$ million)	6 277.5	9 360.6	10 587.2	11 812.1	11 519.8

Source: Ministry of Finance & Economic Development, Reserve Bank of Zimbabwe, Zimstat

PROPOSED BUDGET INTERVENTIONS

116. The huge deficit for the period to June, 2018 is as a result of mainly unbudgeted expenditures and this calls for urgent reforms in order to contain the expenditures, achieve the fiscal consolidation objective and create fiscal space for developmental budget and social services expenditure.

117. In that regard, the 2019 Budget will focus on improving revenue collection and containing current expenditures while increasing social service spending and developmental budget. Social services spending

and developmental budget spending are peculiar in that they reduce poverty, improve the standards of living of all citizens and foster economic development.

Expenditure Management

118. The fiscal deficit, a major cause of macro-economic instability and financial sector vulnerability, is targeted at US$1.5 billion (5.2% of GDP) in 2019.

119. This is achievable upon adoption and implementation of measures to begin regain of control and management of Budget expenditures over the period January 2019 to December 2021.

Treasury Bill Issuances

120. In order to tame the fiscal deficit, Treasury will, in the interim, resort to non-inflationary financing mechanisms.

121. In this regard, Government will from January 2019, revive the issuance of Treasury bills through an auction system, as part of monetary policy operations, to influence liquidity developments in the economy.

122. In addition, Government will revive the issuance of bonds through the development of a secondary bond market, beginning 2019.

123. Under the new thrust, the practice of settling Government obligations using Treasury bills will be discontinued, with such Bills being only issued to raise resources for financing deficits and cash flow timing gaps arising from the Budget approved by Parliament.

Treasury Bill Issuance Framework

124. In order to ensure that Treasury bills are issued guided by adequate analysis and proper validation, issuances will be governed by a framework that goes beyond generation of correspondence to the Reserve Bank.

125. Issuances of Treasury bills will, therefore, be strictly aligned to the Parliamentary approved borrowing requirements, and votes under an Appropriation Act.

126. This will ensure that no expenditure of public monies is incurred on any service where provision has not been made by or in terms of the Public Finance Management Act or any other enactment.

127. The Reserve Bank, as banker to Government, will only issue Treasury bills via issuance of a Treasury Bill Issuance Note by the Accountant General.

128. On maturity of the Treasury bills, the Reserve Bank will also be given authority, in writing, from the Accountant General to debit the Government account.

129. The above procedure will further improve accountability for disbursements made from public resources, while enhancing scrutiny over and monitoring the deployment of borrowed funds, maturity profiles and sustainability of the debt portfolio.

Fiscal and Financial Stabilisation Committee

130. Treasury will preside over a Fiscal and Financial Stabilisation Committee to coordinate and monitor adherence to the fiscal and monetary targets outlined by the Transitional Stabilisation Programme.

Facilitative Taxation

131. While compliance with fiscal and customs laws remains critical to the economic development of Zimbabwe, nurturing a competitive business environment will require support and innovation in the design and administration of taxation policies and measures

132. This calls for innovation in the design and administration of taxes, to include simplified tax structures for micro, small and medium enterprises.

133. Consistent with the thrust of the Transitional Stabilisation Programme, tax policy will emphasise on sustainable taxation, with reduced penalties and interest, in order to nurture businesses and enhance their capacity to pay their tax dues, while remaining operational in order to produce, export, and create employment.

134. Furthermore, the Budget targets eradication of corruption, which is a major source of leakages to public revenues, and also a major cost to various productive activities.

135. Targeted areas include, among others:

- Unethical Corrupt practices at Ports of Entry and Exit;
- Tax Evasion and Avoidance practices;
- Smuggling and Money Laundering; and
- Unethical Procurement practices.

Revenues

136. Government will aim to ensure optimal resource mobilisation, consolidate the gains realised by the local industry, through support measures provided by Government such as the following:

- Sector specific tax concessions which seek to attract investment;

- Increase exports;
- Reduce the cost of inputs into production, thereby expanding the tax base;
- Formalisation of informal business operations;
- Improvement in the tax administrative system, thereby enhancing tax collection, as well as provide relief to taxpayers;
- Reduction in incidences of profit shifting by multinational corporations, through comprehensive, internationally recognised legislation to curb transfer mispricing; and
- Plugging leakages at Ports of Entry, securing unofficial points of entry, and curbing incidences of corruption, which will benefit collections of customs duty and also spur growth in corporate income tax collections.

Expenditures

137. On the expenditure side, Government will institute the following measures:

- Stop all quasi-fiscal activities by the central bank and ensure all Government expenditures are financed through the budget;
- Review the implementation modalities of Command Agriculture to ensure efficiency in input procurement as well as recoveries;

- Pursue restructuring of State Owned Enterprises with a view of reducing reliance on fiscal support; and
- Limit Capital budget to support hard infrastructure projects.

Public Finance Management System

138. In 2019-21, the Budget will prioritise strengthening of the Public Finance Management System, building on work already being conducted, under the World Bank managed Zimbabwe Reconstruction Fund, to roll out the system to cover all Districts.

139. Treasury will also put in place measures to ensure the strict enforcement of approved penalties for cases of non-compliance with requirements of public resource management legislation.

Wage Bill Containment Measures

140. The 2019 and 2020 National Budgets will institute Wage Bill Containment Measures which will reduce the annual Wage Bill outlay by around US$200 million (0.7 % of GDP) and US$130 million (0.4 % of GDP), respectively.

141. These measures include:

- Moving away from an unfunded 'Pay-As-You-Go' pension arrangement by adopting a funded Defined Benefit Pension Scheme arrangement in line with best practice in other jurisdictions;

- Further review of Treasury Subventions;
- Right-Sizing Public Employment;
- Rationalisation of posts in the Public Service;
- Strengthening Wage Bill Management;
- Further reductions in Budget Travel expenditures;
- Further review of expenditures on fuel benefit levels from January 2019;
- Curtail acquisition and provision of vehicles by the State, including replacement of condition of service vehicles;
- Enforce measures on the use of Government Operational Vehicles by Public Officers;
- Rationalisation of the Foreign Service Missions;
- Review of Parliamentary sitting allowances; and
- Limit expenditures on By-Elections.

Reform of the Public Service

142. The 2019 Budget also recognises the need to rationalise the Civil Service, that way beginning to make inroads towards managing the wage bill, which currently constitutes a disproportionate share of total Government expenditure.

Debt

143. In view of giving Government space to consolidate its fiscal position, the following measures will be implemented, with regards to managing the current debt:

- Restructure short term debt to long term to spread maturity profile and reduce debt burden in 2019;
- Reduce Central bank overdraft to the stipulated levels of 20% of previous year's revenue; and
- Parliament and Audit office should enforce compliance with fiscal rules.

SUPPLY STIMULATION

Agriculture

144. The agriculture sector performed better than anticipated during the current season of 2017/18, on account of higher output on mainly cash crops such as tobacco, cotton and soya beans, as well as livestock.

145. Beef, pork and poultry production surpassed the previous year's level while dairy production continued on a growth trajectory with output topping 6.7 million litres in August 2018.

146. However, maize and other grains production, at 1.8 million tons, fell short of the national requirements of 2 million tons for both human and livestock consumption.

Agricultural Production Statistics (000 tons)

	2017	2018	2019	2020
Tobacco (flue cured)	190	252	253	253
Maize	2,155	1700	2200	2420
Beef	72	77	80	85
Cotton	75	130	200	220
Poultry	131.0	145	155	160
Groundnuts	139.0	127	150	155
Wheat	160.0	132	200	250
Dairy (m lt)	83.0	90	100	120
Sorghum	182.0	78.0	180.0	200
Overall Growth	14.8	12.4	11.6	8.5

Source: Ministry of Finance, Reserve Bank of Zimbabwe, Zimstat

147. The positive performance of the sector is attributable to favourable weather condition for crops that do well in less rainfall unlike maize.

Productivity

148. Low productivity in agriculture is compromising competitiveness of locally produced agro-products in relation to regional and international contenders, threatening viability of the sector.

149. The low levels of productivity are necessitating the current unsustainable high producer prices offered by Government for major crops such as maize, wheat and soya beans, which has become a major source of budget deficits.

150. Low yields are attributable to sustained low levels of investment in extension services, research and development in the sector, which increases the cost of production.

151. Government allocations towards these areas have been minimal while priority has been on inputs and outputs subsidies for the sector.

Extension Services

152. Extension services are critical in disseminating information on agricultural technologies and improved practices to farmers, thereby enhancing agricultural productivity, especially for small scale farmers.

153. This is more important at this moment when the number of farmers in need of such services has increased, as the new land owners have limited commercial farming experience and skills.

154. To improve access to extension services, Government will reprioritise allocations of resources to the sector towards extension services to improve training and experience of extension workers, as well as their mobility with a view to enhance the capacity of farmers.

Research Services

155. Similarly, over the years, publicly funded research has faced the challenges of inadequate resource allocation, limited coordination

among the various research institutions, as well as loss of qualified and experienced staff.

156. As a result, there had been minimal adoption of new technologies and varieties in the sector, critical for enhanced productivity of local farmers.

157. In view of this, Government will increase resource allocation towards the area of research and development as a way of improving yields.

Marketing

158. Marketing of agricultural products is essential for guaranteeing viable return for farmers and ensuring sustainability of farming activity through competitive pricing and ready market.

159. However, access to markets has been a challenge, especially for small farmers who have often been forced to dispose livestock at give-away prices.

160. Lack of market access also increases post-harvest losses, undermining farmers' earnings, as absence of markets often leaves farm produce to either rot or disposed of at give-away prices.

161. As a result, Government will facilitate access to markets by farmers through re-establishment of commodity exchange markets, which will

also transform agriculture output into effective collateral for borrowing by farmers.

Irrigation

162. Government is making some strides to reduce food insecurity owing to erratic rainfall patterns and climate change by increasing irrigable land through irrigation rehabilitation and development.

163. Under the auspices of the National Irrigation Development Master Plan, Government developed the National Accelerated Irrigation Rehabilitation and Development Programme, targeting irrigation development and rehabilitation of at least 200 ha per district to be implemented over the next 10 years.

164. The 2018 National Budget made a provision of US$36.4 million to kick start the programme, with US$8.8 million having already been transferred to IDBZ, which is currently managing the programme on behalf of Government.

165. In addition, Government mobilised substantial resources to the tune of US$58 million through loan financing under the Command Agriculture Programme towards the rehabilitation and development of the irrigation systems in the country.

166. Of this, US$18 million has already been spent on procurement and installation of irrigation pumps and pipes, electric motors, transformers and other ancillary support services, among other essentials, targeting 8 849 ha in all farming provinces.

167. Currently, Government is implementing the US$40 million Facility, targeting 16 000 ha.

168. Furthermore, from other private sector loan initiatives, works were completed on casting of centre pivots on 45 farms and mounting on 36 farms across provinces, while 12 centre pivots were already functional by September 2018.

169. Going forward, Government will continue to mobilise additional resources towards the programme.

Agriculture Financing

170. Expenditure on agriculture has been one of the major components driving budget deficit recently. Expenditure on the sector reached US$1.1 billion as at August 2018, against an annual Budget target of US$401 million.

171. Of this, US$238 million went towards Command Agriculture, US$263 million towards Vulnerable Input Support Scheme and US$505 million to grain procurement.

172. Of the US$1.8 billion Treasury bills issued during January to July 2018, about US$361 million went towards agriculture funding.

173. While on the face of it, the TBs issued towards Command agriculture are a private debt, however, in view of the high default rate by farmers under the Command Agriculture, it effectively means that it is a Government expenditure.

174. In view of the implications of the current model of financing, there is need to revisit the mechanism, with a view of lessening the fiscal burden which has a destabilising effect on the macro-economic environment.

Mining

175. Projected growth of 26% in 2018 in the mining sector is being driven by strong performance of gold, coal, chrome and diamond while other key minerals for platinum group of metals (PGMs) underperformed.

176. The lower than anticipated platinum output is attributable to reduced throughput from the major producer, Zimplats, due to the planned closure of open-pit operations, as the company switches to underground operations at Bimha mine which reached design production capacity as well as decline in international prices.

177. Going forward, Government will focus on supporting enhanced production of all minerals to spur growth. More important will be ensuring that leakages from all minerals are plugged.

178. Mining companies will also be accorded greater access to foreign currency in order to avoid delays in the procurement of key raw materials and spare parts for machinery and equipment.

179. Furthermore, the thrust should also be to strengthen strategic sectoral inter-linkages with other sectors of the economy, through value addition and beneficiation.

180. In addition, there is need to improve and sustain the livelihoods of the majority of our rural communities in the areas where these minerals are being exploited through a well-articulated Corporate Social Responsibility Framework.

181. Other measures in support of the sector include the following:

- Capacitating Fidelity Printers and Refiners to mop up all gold, through increasing gold buying and support centres across the country;
- Capacitating small scale miners, through access to equipment for hire and affordable credit lines and technical skills;
- Embracing interventions to reduce environmental, social and health impact challenges that arise in artisanal and small scale mining operations;

- Finalising amendments to the Mines and Minerals Amendment Act, which seeks to promote exploration and mining by revoking unutilised claims being held for speculative purposes;
- Harmonising mining taxation laws to ensure viability of the sector;
- Facilitating expeditious implementation of currently stalled completion of the base metal refinery at Zimplats for it to reach local refining thresholds in line with the beneficiation roadmap;
- Capacitating Hwange Colliery to fully embark on underground coal mining; and
- Resuscitating idle and distressed mines under ZMDC.

182. In this regard, the mining sector is projected to grow by 16.1% in 2019 and a further 15.3% in 2020, benefiting from strong performances mainly in gold, diamonds, chrome and coal.

Manufacturing

183. The manufacturing sector has potential to transform the country's economy, creating massive and quality jobs, so as to achieve upper middle income status by 2030.

184. Thus, the sector is critical in anchoring the transformative agenda of the national development plan, through increasing its contribution to gross domestic product from current levels of around 10% to about 25%, benefitting from the mining and agricultural sectors' growth momentum.

185. To transform and grow the sector, the following complementary interventions should be pursued.

- Containment of costs to achieve internal devaluation and competitiveness;
- Facilitating access to affordable medium and long-term lines of credit for re-tooling and modernisation;
- Ensuring availability of foreign currency; and
- Continued drive to promote both foreign and domestic investment by ensuring continued macroeconomic stability.

Facilitating Access to Affordable Medium and Long-Term Lines of Credit

186. Government is making serious efforts, through negotiating with external financiers, to extend affordable medium to long term funding to the local industry.

187. In the same vein, private sector is being called upon to be more innovative in developing instruments and proposals meant to tap into the available funding options, borrowing from the tobacco and dairy sectors funding models.

Value Chains

188. Further, the Budget will support promotion of value chains, especially those with strong linkages to agriculture, given Government's increased investments in the agriculture sector.

189. Therefore, strengthening these linkages, through ensuring a continuous and reliable supply of the agriculture throughput such as wheat, horticulture, soya beans, among others, will aid the manufacturing sector acquire its much needed raw materials in the value chain.

190. Manufacturing should also target participation in regional and global value chains, a crucial element of the industrialization strategy, as it has the potential to extend production possibilities and enable cross-border utilization of natural and human resources of the region.

Forward Linkages

191. Similarly, strengthening forward linkages with other sectors in supplying the sector's manufactured products such as chemical products, non-metallic mineral products, steel and metal products, feeding the mining, agriculture and construction sectors, respectively, will further boost growth of the country's manufacturing.

Export Promotion

192. Industry players should consider venturing into non-traditional exports where the sector has some competitive advantage, as opposed to continued concentration on the traditional exports that are losing competitiveness. Such ventures can be made into areas of lithium battery

manufacturing, cement manufacturing from available coal deposits, value adding horticultural produce, as well as pharmaceuticals, among others.

Ease of Doing Business

193. There is also need to expedite implementation of the ease of doing business reforms in its totality. These reforms relating to the time taken to register a business, harmonising of all the fees and charges from various Government departments, among other issues, will further attract key investment into the manufacturing sector.

National Competitiveness Commission

194. The National Competitiveness Commission (NCC) was put in place to deal with issues that are negatively affecting industry and help make business more competitive.

195. However, the Commission is yet to be fully capacitated to enable it to carry out its mandate independently.

196. There is, therefore, urgent need by government to expedite the capacitation of NCC and ensure that NCC reports are escalated to the Office of the President and Cabinet.

Level Playing Field

197. Full implementation and enforcement of SI 19 of 2016 that requires application for importation license for the importation of second hand goods, as well as curbing of illegal and smuggled imports is essential.

198. This will assist the manufacturing sector secure domestic demand for its products where capacity to supply exist.

Industrial Parks

199. Government should also take the lead in building industrial infrastructure, such as industrial parks, to support cluster development, as well as invest in Research and Development for industrial development and innovation.

200. In the same vein, there is urgent need for continued engagement and building of the much needed relationship between Industry and tertiary institutions to explore areas of collaboration and development for growth.

Buy Zimbabwe Campaign

201. There is need to promote consumption and use of products with high local content in support of the local content policy and employment generation.

Distressed Companies

202. There is further need to resuscitate operations of distressed companies including some subsidiaries of the Industrial Development Cooperation (IDC) to recover lost production by ensuring that IDC reverts back to its mandate as prescribed by law.

Service Sectors

203. The share of the service sectors in driving economic growth and employment creation is fast growing, reflecting the need to give more attention to industries such as tourism, finance and insurance, social services, ICT and transport, among others.

204. In 2019, focus will be on providing a sound and conducive operating environment for increased and efficient service delivery. The strong linkages between the service industry and productive sectors will require that the physical infrastructure, institutional framework and policies are also consistent with the drive to promote value chains.

205. In the short to medium term, such linkages will be the springboard for increased output and export competitiveness.

206. Specific interventions for the tourism industry will target the following:

- Promoting Zimbabwe as an international destination of choice;

- Addressing cost centres for tourism to increase tourism product competitiveness;
- Tourism product development to appeal and meet the needs of both the international and domestic market whilst increasing downstream expenditure; and
- Expediting the Tourism Special Economic Zones.

207. As the country is gearing towards being an upper-middle income economy, measures to improve perception of the country as a safe destination will be key. Special attention will be paid towards maintaining political and economic stability as well as prevention of communicable disease scares such as Ebola, Cholera and Typhoid, among others.

Small & Medium Enterprises

208. Continued support should be given to SMEs, given their critical role towards employment creation, economic development and contribution towards fulfilment of sustainable development goals through poverty reduction.

209. There is need to develop suitable infrastructure and workspace for SMEs, as well as build capacity in product quality, business management and marketing, among other areas.

210. Recognising the increasing importance of SME linkages with large organisations to SME development, the budget should incorporate measures to encourage this development.

211. The 2019 budget should also seek to capitalise the SMEs banks namely SMEDCO, Empower Bank, Zimbabwe Women Microfinance Bank, as well as the Youth and Women Development Funds.

Infrastructure Development

212. The country's huge infrastructure deficit is weighing down on the competitiveness and development of the economy. In light of this, Government has lined up a number of infrastructure development projects, with a view to achieve sustainable socio-economic development of the country.

213. To realise the turnaround of the economy, Government will prioritise sustainable infrastructure investment. Already, policies aimed at creating conducive conditions necessary for attracting investment in the country's infrastructure are being crafted.

214. In this regard, Government will increase capital expenditure for infrastructure projects throughout the country. Of priority will be road construction and rehabilitation, dam and irrigation redevelopment, energy infrastructure expansion, ports redevelopment and expansion, water and sanitation projects, among others.

215. Critical projects that will be pursued include the following:

- Dualisation of the Harare-Beitbridge;
- On-going road rehabilitation projects;
- Upgrading and expansion of the R. G. Mugabe International airport;
- Construction of dams such as Causeway, Gwayi-Shangani, Marowanyati and Semwa;
- Redevelopment of Beitbridge border post; and
- Expansion of Hwange 7 & 8 power projects, among others.

216. Government is also committed to supporting housing development through private investments in low cost housing across the country. This is being achieved through collaboration with public sector entities (for example IDBZ), banks, building societies and self-financing schemes by individuals.

STRUCTURAL ISSUES

Public Enterprises & Local Authorities' Service Delivery

217. There is general low confidence in public institutions, which include our public enterprises as well as our local authorities.

218. Government will, therefore, expedite the implementation of the Cabinet decision on restructuring, partial or full privatisation of entities with the following options being pursued:

- Liquidation;
- Full privatisation;
- Transformation to regulator;
- Merging and de-merging; and
- Departmentalisation into existing Ministries.

219. Local Authorities are also expected to be visible in terms of service delivery and investment attraction in their jurisdictions.

Public Corporate Governance

220. The 2019 Budget will operationalise the Public Entities Corporate Governance Act, in order to rein in failing public entities, restore order, consistency, transparency and accountability in their operations.

221. Further, the 2019 Budget will review and extend the coverage of the Public Entities Corporate Governance Act to Local Authorities from the last half of 2019 in support of enhancing service delivery.

Empowerment of Provinces

222. The 2019 Budget will outline targeted programmes to champion economic development across the Provinces, including the big cities such as Harare and Bulawayo.

223. This represents a new Governance Dispensation where decentralisation becomes a key feature and strategy for fair and just governance across its four dimensions, namely administrative, political, fiscal and market.

224. To this end, the Civil Service Commission will facilitate the transfer of the requisite functions and establish the structures and systems that will enable all Provinces to plan and implement their economic growth and development using their factor endowments.

Rent Seeking & Corrupt Behaviours

225. Under the 2019 Budget, the fight against entrenched indiscipline and corruption will be dealt with through the necessary disincentives and penalties.

226. This will include the review of the Penalty regime so that persons guilty of corruption are subject to effective, proportionate and dissuasive penalties, including empowering Courts on the application of the Prosecutor General to grant Civil Forfeiture Orders in respect of property from proceeds of corruption.

227. To further consolidate on the measures already put in place to cleanse society of the scourge of corruption, the Budget will strengthen and

capacitate institutions and public service systems that enable early detection of corruption.

Ease of Doing Business

228. Under the 2019 Budget further measures to the *Ease of Doing Business* reforms, with the objective of improving the country's competitiveness in terms of the business and investment environment will be prioritised.

229. This includes enforcing contracts, which currently is time consuming and difficult for the average business entity. Necessary legislative and administrative reforms to consolidate and harmonise the various scattered legislative pieces into an omnibus investment Act will also be established.

230. The Act will bring in the birth of the Zimbabwe Investment Development Agency, that way operationalising it as a *One Stop Investment Services Centre*.

Re-engagement

231. As at end August 2018, the country's foreign debt arrears stood at US$5.6 billion, which is split into:

- Multilateral creditors, US$2.2 billion;

- The Paris Club, an informal group of creditor nations, US$2.7 billion; and
- Non-Paris Club creditors, US$700 million.

232. Re-engagement will, therefore, embrace all the major elements for cooperating with creditors over resolving Zimbabwe’s external payment arrears, including a comprehensive and coherent macro-economic policy framework, underpinned by a strong programme of fiscal adjustment and structural reforms.

233. The sequence will require the country clearing first, and simultaneously, its arrears to the AfDB, US$680 million, the World Bank, more than US$1.4 billion and the European Investment Bank, US$308 million.

234. Government will also continue to strengthen relations with Development Partners for implementation of measures aimed at leaving no one behind and ensuring sustainable and inclusive economic development, consistent with the Sustainable Development Goals.

235. In order to strengthen cooperation between Government and Development partners, work is currently underway to review the existing aid coordination architecture.

Competitiveness of Exporters

236. Production of goods for export remains Zimbabwe's major source of foreign currency to support realisation of Vision 2030 towards a *Prosperous and Empowered Upper Middle Income Society* with job opportunities and high quality of life for its citizens.

237. Support for competitiveness of domestically produced goods in both regional and international markets will, therefore, be central to the initiatives under the 2019 Budget.

238. The RBZ will, therefore, be instituting measures that seek to strengthen the economy's balance of payments, particularly with regards to enhancing exports, currency competitiveness, improving capital inflows, as well as managing over-dependency on imports.

GOVERNANCE

239. Good governance based on Rule of Law, Human Rights and Freedoms, Accountability, Transparency, Responsiveness, Equity and Inclusivity, Efficiency and Full Participation of the people in socio-economic development, is the bed-rock for a new democratic and developmental Zimbabwe.

240. These values are already enshrined in our Constitution and the new Government commits to live by them, never overstepping its mandate.

241. In re-affirming this commitment, Government has aligned about 163 Laws, out of 206 Statutes, with the provisions of the Constitution and work on the remaining 43 is progressing.

242. Furthermore, Government is amending other contentious laws such as the Public Order and Security Act (POSA), the Citizens Act, Access to Information and Protection of Privacy Act (AIPPA), as part of aligning the laws to the Constitution.

243. In addition, Government will be supporting efforts on the following democratisation initiatives:

- Improving communication channels with the public to allow cross-pollination of views and building of trust, tolerance and common understanding that informs policy interventions;
- Upholding the rule of law, promote peace, harmony, safety, security and stability for the citizenry;
- Continue to work with Civil Society and International Organisations, and also maintain open channels for dialogue; and
- Promoting peaceful co-existence of various segments of the society, including people of diverse political views. The National

Peace and Reconciliation Act meant to promote unity in the country and healing wounds of the past is now in place, that way fostering peace, reconciliation and harmony.

CONCLUSION

244. Proposals on major policies, priorities and other interventions highlighted in this Budget Strategy Paper are meant to assist debate on broad macro-fiscal parameters of the 2019 National Budget.

245. The underlying projections and targets remain tentative and may be adjusted and strengthened based on arising developments and inputs from planned consultations.

246. Treasury, therefore, looks forward to full participation in enhancing the quality of the 2019 Budget from all stakeholders, including Line Ministries and Departments, business, academia, labour, civic organisations and the general public.

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