



PARLIAMENT BUDGET OFFICE

MONTHLY BUDGET PERFORMANCE AND OUTLOOK REPORT: FEBRUARY 2017

Disclaimer

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1. Introduction

This Budget Performance and Outlook Report is a review of the Budget implementation for the first 2 months of January 2017 aimed at enabling the Legislature and the public to understand and scrutinise how public funds are being spent and to increase transparency and accountability.

The total Approved Budget for the 2017 fiscal year is US\$4.1 billion, premised on anticipated revenues of US\$3.7 billion, and a projected domestic financing gap of US\$400 million. Of the total Budget, recurrent expenditures (excluding employment costs) are estimated at US\$400 million (9.76% of the total budget), while US\$520 million (3.6% of GDP and 12.7% of the budget) was approved for development programmes. Projected employment costs are US\$3 billion (73.2% of the budget).

2017 Finance Act and Appropriation Act

The Acts were gazetted on 24 March 2017 thus giving effect to Government proposals for levy of new taxes, modification of the existing tax structure or continuance of the existing tax structure as proposed in the 2017 as well as giving power to the Treasury to withdraw funds from the Consolidated Fund for meeting the expenditure as outlined in the Appropriation Act during the 2017 financial year. Some of the proposed changes that have taken effect include; -

- i. Downward review of presumptive taxes and change of the payment period from quarterly to monthly basis for different categories of omnibuses and driving school vehicles;
- ii. Imposition of \$10 presumptive tax for every chair in every salon per month instead of \$1500 for every saloon per quarter;
- iii. Deduction of 5 % Health Fund Levy on all airtime purchases to raise funds to acquire drugs and equipment under the theme, '*Talk-Surf and Save a Life*' thus taking the special excise duty on airtime to 10%;
- iv. Upward review of duty on textiles in order to level the playing field;
- v. Rebate of duty on selected raw materials in order to enhance local industry competitiveness;
- vi. Removal of laggageware, wheat flour and school uniforms on the OGIL;
- vii. Extension of 15% platinum tax reprieve.

2. Economic growth

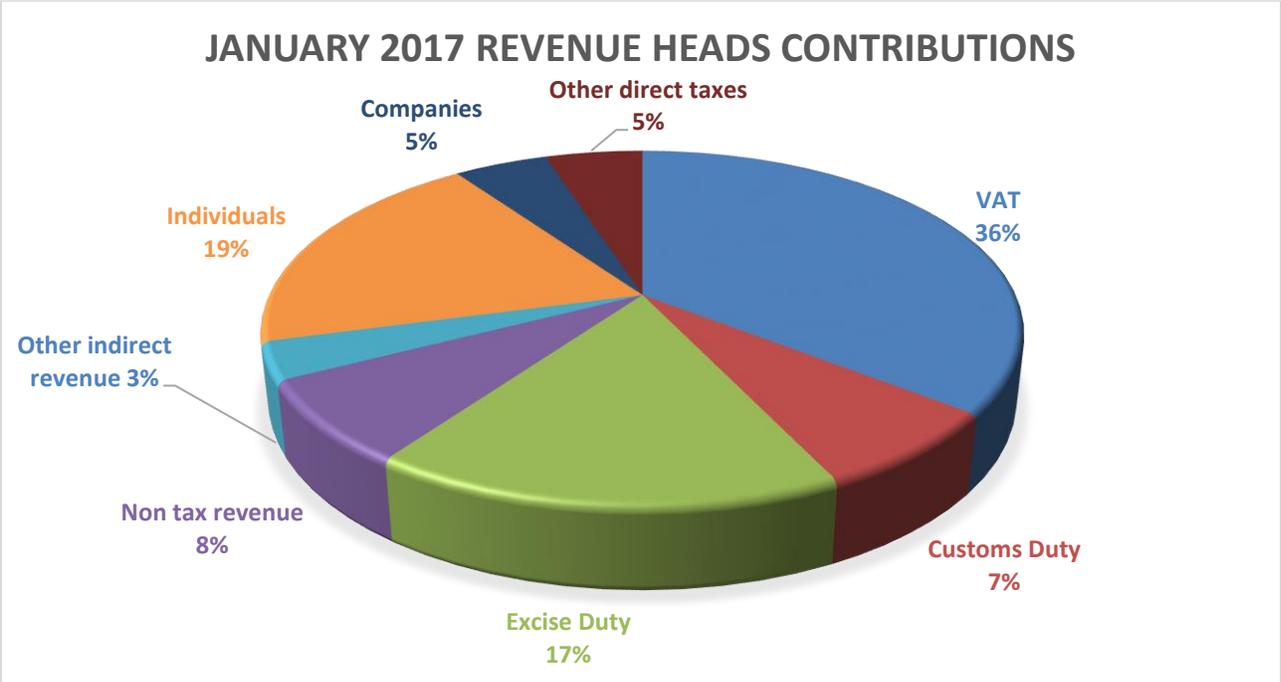
The 2017 growth rate was projected at 1.7% in the 2017 budget statement buoyed by anticipated growth in key sectors of mining and agriculture, benefitting from the above normal rainfall received

and anticipated moderate improvements in international commodity prices, fruition of planned mining investments as well as benefits from the ease of doing business reforms. The Minister of Finance has however, albeit unofficially, hinted that the growth target could be revised to 3.7 % buoyed by the successful agriculture season. According to the Minister of Finance, Zimbabwe expects to harvest 3 million tonnes of maize this year driven by the successful command agriculture scheme. The record highest maize output was in 1984 which recorded 2.95 million tonnes. The IMF, on the other hand, forecasted a -2.5 % contraction in Zimbabwe’s GDP, in its outlook published in October 2016 and urged the Government to undertake major reforms.

The economy is grappling with the following challenges which may hamper its ability to meet the anticipated growth targets:

- Shortages of foreign currency to fund critical inputs in most sectors of the economy;
- High cost of production which has eroded competitiveness;
- Unsustainable Government wage bill;
- Trade deficit; and
- Unsustainable debt stock of about 80% of GDP.

3. Revenue Performance

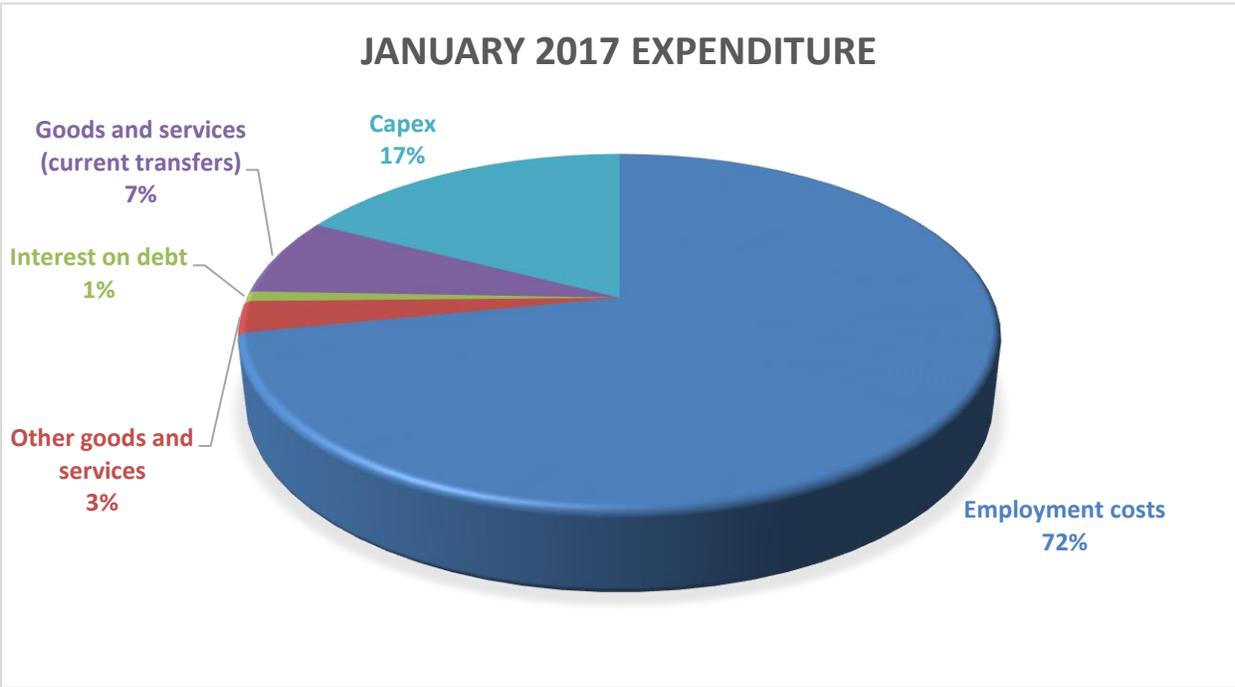


Source: MoF

Revenue performance of US\$ 282.2 million was realized in January 2017 against a target of US\$278.3 million. Revenue performance was 1.4% above target. The combined effect of automation, enhanced enforcement and efficiency measures, have led to the improvement. Contribution of the respective tax revenue heads in January 2017 is shown in the Pie Chart above. VAT is the dominant revenue head at 36% suggesting that Zimbabwe is largely a supermarket economy. The underperformance of the mining sector and State enterprises is largely responsible for the decline of non-tax revenue contribution.

4. EXPENDITURE

Actual expenditure outturn in January 2017 was US\$ 305.5 million against a target \$US 362.8 million. A budget deficit of US\$ 23.3 million was recorded and was financed largely through domestic borrowing. Of this expenditure, US\$252.6 million was on recurrent expenditure while US\$53 million was on capital expenditure. Employment costs constituted 71.8% of total expenditure.



Source MOF

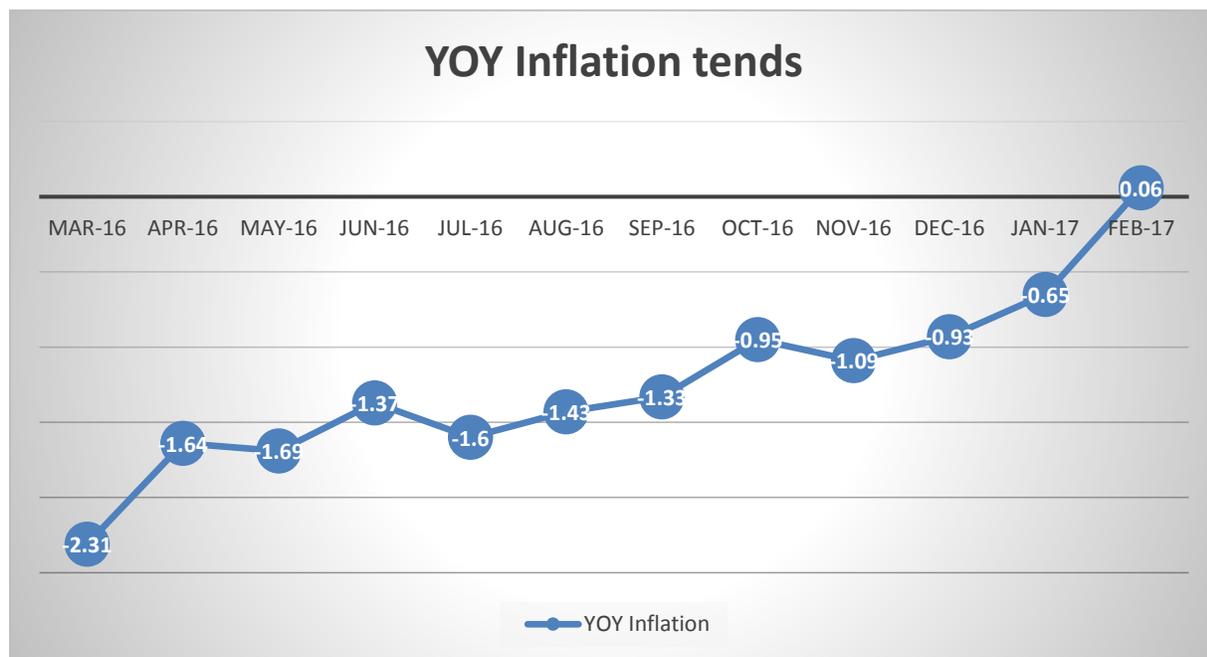
It is however pleasing to note that US\$ 53 million was spent on capital projects representing approximately 17% of the budget. The declining share of employment costs to total expenditures gives a ray of hope on Treasury intensions to reduce employment costs to below 70% of the wage

bill by year end which reduces the crowding out effect of employment expenditure on other non-wage capital and social spending, key for stimulating growth and reducing poverty.

5. Inflation

Zimbabwe’s year on year inflation rate for the month of February stood at 0.06 %, after gaining 0.71 percentage points on the January 2017 rate of -0.65 % and 1.1 % on the December 2016 rate of -0.93%. Inflation has entered the positive territory since February 2014 and is expected to average 1.1 % in 2017. Month-on-month the inflation rate in February 2017 was 0.61 % gaining 0.38 percentage points on the January 2017 rate of 0.23 %. The major factors behind the upward trend in inflation include: -

- The shortage of foreign currency to import critical raw materials that led to high premiums being charged on hard currency. These premiums are being passed on to the consumer resulting in inflation
- The firming of the rand against the USD.



Source: Zimstat

6. Agriculture

The sector is projected to rebound in 2017 with an anticipated growth of 12% driven by higher output from major crops such as maize, cotton and tobacco, as well as milk production. The command

agriculture scheme initiated by Government has recorded notable successes and the total land contracted under the scheme as at 9 February 2017 was 246035.5 ha and the total number of farmers was 36 472.

A total of US\$140 368 320 is required to support 70 000 ha of winter wheat production which translates to 350 000 mt at an average yield of 5 mt per hectare. Zimbabwe's winter wheat production this year is projected to reach over 200 000 tonnes from about 10 000 tonnes in 2016. This self-sufficiency will curb wheat flour imports, which have since been removed from the Open General Import Licence. Zimbabwe consumes between 400 000 tonnes and 450 000 tonnes of wheat annually. At its peak, wheat production in Zimbabwe stood at 325 000 tonnes in 2001

With regards to tobacco output, Government is anticipating a growth of 1.3% in the 2016/17 season. As at 30 December 2016, a total of 80 745 farmers had registered as growers, a 15% increase from the 2015/16 growers. Figures from the Tobacco Industry and Marketing Board (TIMB) also show that as of January 5, tobacco area planted for the 2016/17 season stands at 91 805 hectares from 87,755 hectares last season. In this regard, indications are that the 2017 targets of 205 million kgs will be met despite the challenges being faced. In 2015, TIMB statistics show that 29,164,5 million kg of tobacco valued at US\$933,6 million was exported to various destinations across the globe as of December 2016. It will be however difficult to eclipse a record high of 236,13 million kg marked in year 2000.

Table 1: Area planted for the 2017/17 farming season as at 27 January 2017

CROP	2017/17 SEASON	2015/16 SEASON	CHANGE %
Maize	1 243 624	773 968	61
Sorghum	188 430	86 409	118
Pearl Millet	124 088	56 201	120
Finger Millet	37 511	24 381	54
Groundnuts	206 997	151 030	37
Cowpeas	41 444	21 881	89
Cotton	155 056	105 918	49
Soya Beans	17 032	29 730	-43
Sunflower	3 657	1 998	83
Sweet Potato	18 721	10 237	83
Sugar beans	8 024	6 595	22
Roundnuts	30 791	16 162	91
Irish Potato	19 920	18 517	6

Curcubis (Melon, Pumpkin, Squash, Marrows, Butternut)	15 159	13 789	10
Cabbage and leaf vegetables	9 415	9 364	1
Tomato	13 824	15 430	-10
Onion	4 728	4 389	8

Source: Ministry of Agriculture

7. Mining

Marginal output gains in such minerals as gold, platinum and nickel are expected to underpin a modest growth of 0.9% projected in the mining sector in 2017. Gold production target for 2017 is 25 tonnes and will largely benefit from price recovery resulting in improved viability and expected increase in output by gold producers, emanating from expansion projects as well as gold mobilization initiatives by Government. 3.1 tonnes of the precious metal were delivered to Fidelity Printers and Refiners in January and February on the back of tight monitoring of leakages of the yellow metal by regulatory authorities. The deliveries surpassed volumes of the yellow metal supplies for the same months since the inception of a multi-currency regime in 2009 where deliveries were averaging at least 1,1 tonnes per month. In 2016, 23 tonnes of gold were produced of which 21.4 tonnes were from primary and small scale producers with the remaining 1.6 tonnes from Platinum Group of Metals (PGMs).

Platinum output for 2017 is expected to increase compared to 2016 against a background of firming international prices

The mining sector contributes about 10% to GDP and 60% of exports The sector however continues to face acute capital shortages and delays in procurement of critical inputs.

8. Manufacturing

Glowing on the success of SI 64 which resulted in gains in capacity utilisation across several sub-sectors, the manufacturing sector is projected to register modest growth of 0.3% in 2017. The subdued growth is attributed to the diminishing buying power, company closures, subdued FDI and turmoil on the equities market. CZI anticipates capacity utilization to increase from 47,4% in recorded in 2016 to 65% in in 2017 on the back of an improved agricultural season. This would be the highest level of industrial capacity utilisation since dollarisation in 2009, after a peak of 57,2% reported in 2011 by the CZI.

However, to achieve this mark, government would need to deal with issues of corruption, policy inconsistency, lack of access to cheap finance, competition from imports and low demand for domestic products, which are impediments to the growth of the manufacturing sector. The sector is currently grappling liquidity challenges and foreign currency shortages which have caused a backlog of payments for critical raw materials. This is however expected to ease after the injection of the \$70 million nostro stabilisation and the impending bumper harvest which will see increased inflows from tobacco exports

Globally, output is expected to increase just 3.4 % in 2017, according to the International Monetary Fund. Growth is dampened by Brexit concerns and political uncertainties created by some governments, including the United States which is threatening to undermine the free flow of goods.

9. Debt

Zimbabwe has been in debt distress for a long time and as at 31 October 2016, Zimbabwe's public debt stood at US\$11.2 billion or 79% of GDP, of which US\$7.5 billion or 53% of GDP, is external debt and US\$3.7 billion, representing (26% of GDP) is domestic debt. Of the US\$7.5 billion external debt, US\$5.2 billion is in arrears. The country was estimated to have about \$2.1 billion worth of treasury bills in the market as at 28 February 2017, issued to bridge the government's funding gap and clear the central bank's debt. The government's decision to pay the unbudgeted 2016 bonus after pressure from employee unions is likely to worsen the situation as Treasury Bills worth \$180 million are expected to be floated in the market to finance these bonus payments. This comes just after the Government decided to clear its contribution arrears to National Social Security Authority (NSSA) spanning from June 2013 with Treasury Bills worth \$180.9 million with tenure of 7 years and a coupon rate of 5% per annum.

The Reserve Bank in January informed the nation that Government has issued TBs under the following four categories;-

- i. Long-dated TBs of US\$549 million issued to banks for the acquisition of non-performing loans by the Zimbabwe Asset Management Corporation (Zamco)
- ii. Long-dated TBs amounting to US\$300 million issued for the capitalisation of institutions that include the Reserve Bank, Agribank, IDBZ, ZB, Cottco and Caps.
- iii. Medium to long-dated TBs amounting to US\$780 million issued under the Reserve Bank Debt Assumption Act for the central bank debt taken over by government.

- iv. Short-to-medium-dated TBs in an amount of US\$450 million issued to finance the gap between expenditure and revenue collection by government.

10. Trade balance

Zimbabwe's trade deficit stood at US\$309,7 million in the first two months of 2017. According to Zimstats, imports in the first two months of the year stood at US\$808,8 million while exports amounted to \$499,1 million a 7 % fall from the same period in 2016. Zimbabwe however registered a trade surplus of \$14 million against South Africa, its largest trading partner after imports were recorded at \$171 million against exports of \$185 million. Some of the imported products include fish, milk, cheese, sausage casings, sugar related confectionaries, biscuits, electrical energy, chemicals, vehicles and generators. Exports included beef, agricultural produce as well as wines, minerals and scrap metal. In 2016, Zimbabwe's total exports decreased by 7 percent, to \$3.37 billion from US\$3.61 billion the previous year. Imports also declined by 11 percent over the same period, to \$5.35 billion from \$6 billion in 2015.