



**ZIMBABWE**

**2020**

**PRE-BUDGET STRATEGY PAPER**

**TREASURY**

**Harare**

September, 2019



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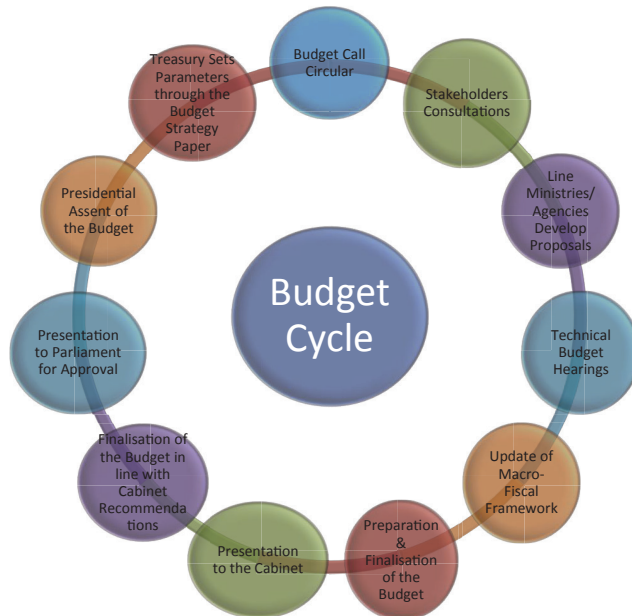
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## INTRODUCTION

1. The 2020 Pre-Budget Strategy Paper (BSP) is meant to facilitate discussions on policy direction for the 2020 National Budget, consistent with the objectives of the Transitional Stabilisation Programme (TSP) and aspirations of Vision 2030.

### The Budget Cycle



*Budget consultations are an all year round process, from the Budget Strategic Paper to the Appropriation Act.*

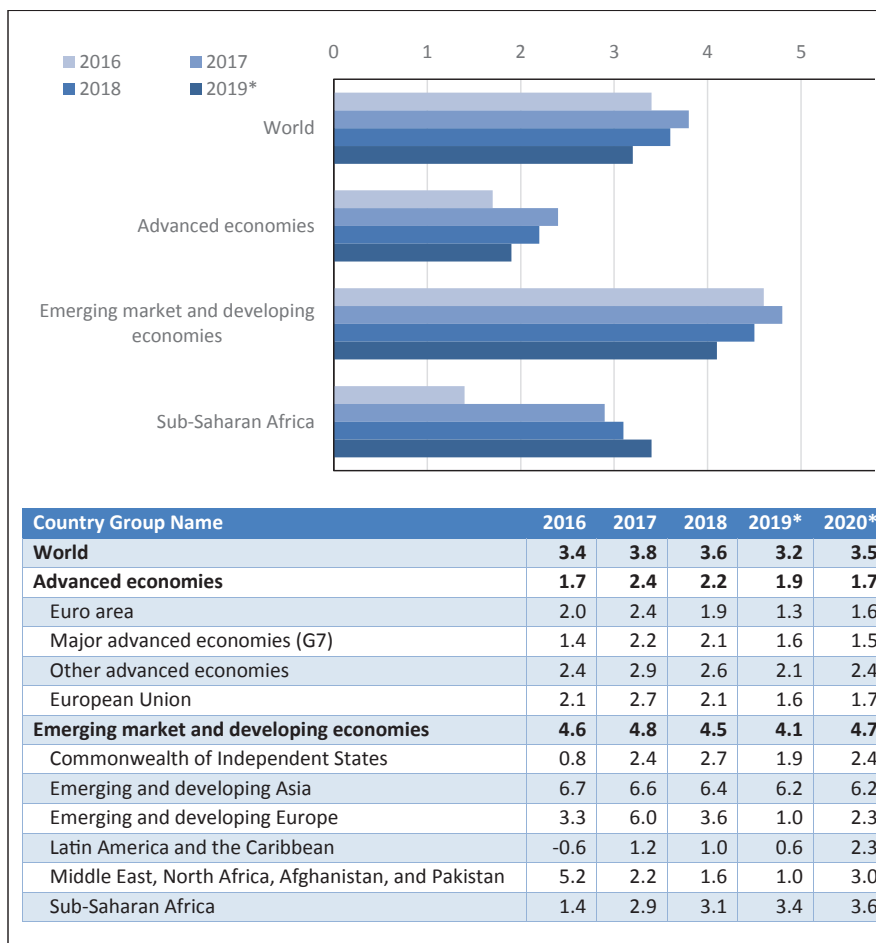
2. For that purpose, the BSP highlights recent global and domestic macro-economic developments and outlook, which together with some assumptions inform the 2020-22 BSP Indicative Macro-Fiscal Framework.

3. The Framework contains macro-fiscal targets, benchmarks and projections on revenues and expenditures compatible with TSP targets and the proposed 2020 Budget policy thrust.
4. The Budget thrust is also informed by progress made on implementation of various reforms under the TSP, including policy gaps that require attention during the forthcoming year.

## **GLOBAL ECONOMY**

5. Global growth is projected to increase to 3.5% in 2020, up from an expected 3.2% in 2019. This expected improvement is largely due to accelerating growth in emerging markets and developing economies, which are offsetting a projected slowdown in advanced economies.
6. However, global growth recovery in 2020 is subject to substantial downside risks. Specifically, growth will be affected by stabilisation efforts in emerging markets and developing economies, as well as an improvement in the international trade environment.

## Global Economic Growth Outlook (% change)



Source: IMF World Economic Outlook Update, July 2019

\* Projection

- The trade war between the United States and China, as well as Brexit remain major sources of uncertainty among advanced economies. Recent political developments in the United Kingdom have made a no-deal Brexit in October 2019 more likely, posing a substantial downside risk to the growth forecast for the UK and the European Union as a whole.

## *Emerging Markets and Developing Economies*

8. Growth forecast for emerging markets and developing economies is at 4.7% in 2020, up from 4.1% in 2019, premised on a number of factors, including an improvement in the global trade environment, as well as a higher degree of political stability in some regions.
9. Emerging and developing Asia is expected to grow fastest at 6.2%, followed by Sub-Saharan Africa at 3.6%, up from 3.4% in 2019.
10. China's growth forecast remains subdued, as a combination of escalating tariffs and weakening external demand are adding pressure to the economy. A policy stimulus is expected to offset some of the negative shocks, and growth is expected to stand at 6.0% in 2020, down from 6.2% expected in 2019.

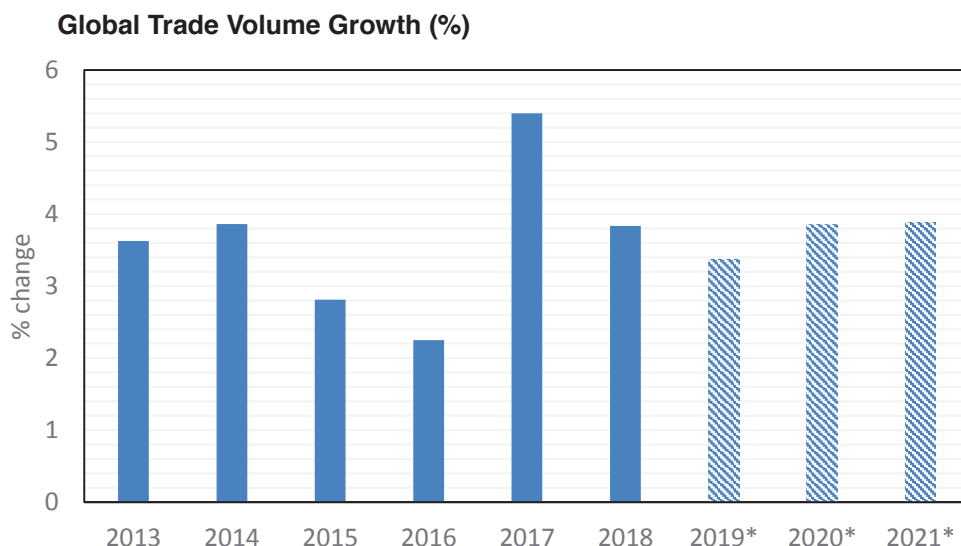
## *Sub-Saharan Africa*

11. Across sub-Saharan Africa, growth is projected to improve from 3.4% in 2019 to 3.6% in 2020. With commodity prices negatively affected by international trade tensions, this growth is mainly driven by non-resource-intensive countries.
12. Growth in the region's largest economies is expected to recover to 2.6% in Nigeria (up from 2.3% in 2019) and 1.1% in South Africa (0.7% in 2019).



## Global Trade

13. Global trade is projected to recover and grow by 3.9% in 2020, up from an expected 3.4% in 2019. However, the recovery is contingent on developments in the trade conflict between the United States and China, among other factors. As of August 2019, this conflict shows no sign of conciliation, as both sides imposed further tariffs and trade restrictions despite a 90-day tariff truce agreed in June 2019.
14. The increasingly and likely prospect of a no-deal Brexit in October 2019 poses a severe additional downside risk to global trade which could disrupt trade within the European Union, with a possibility of spreading beyond the region.

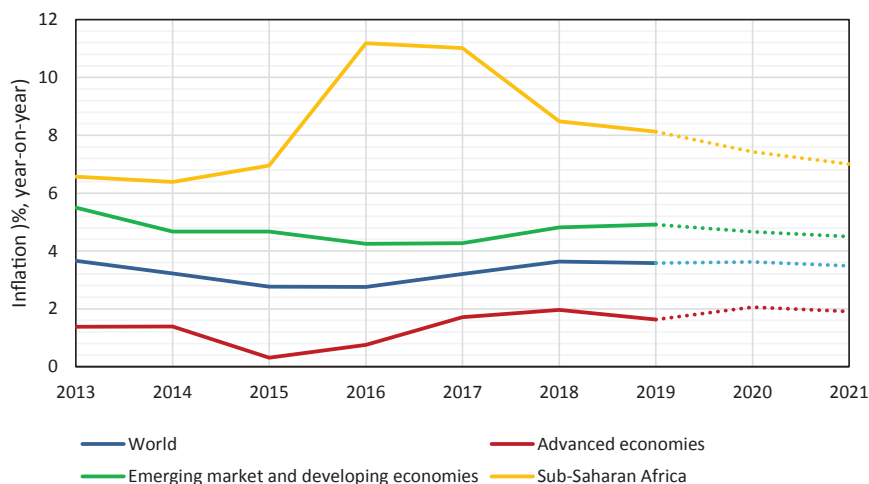


Source: IMF World Economic Outlook Update, July 2019

\* Projection

## Global Inflation

15. Global inflation is expected to remain stable in 2020, and to decline in emerging markets and developing economies. This is mainly due to an expected drop in oil prices and the easing of monetary policy stance by major central banks.

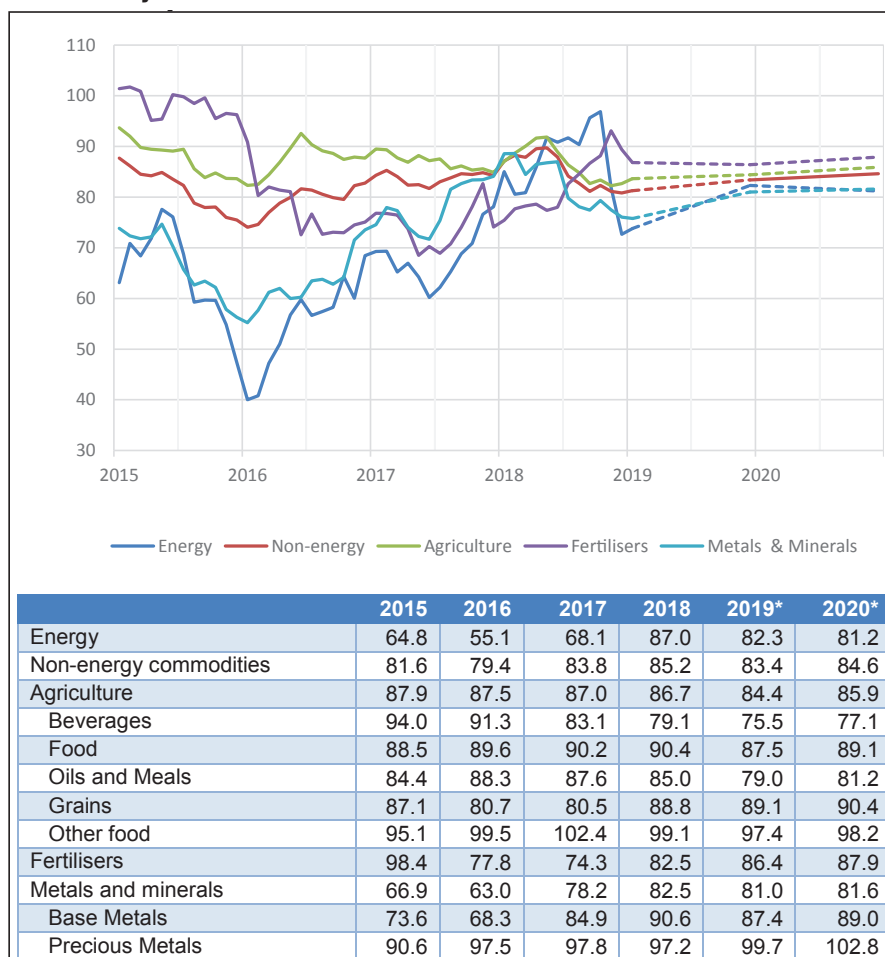


16. Inflation in emerging and developing countries, however, remains higher than that in developed economies. Sub-Saharan African countries in particular exhibit high inflation rates, expected to average 7.4% in 2020. Pass-through effects from currency depreciations in this region constitute a major driving factor on inflationary pressures.

## Commodity Prices

17. Metal and mineral prices have generally been recovering in 2019, as a result of supply suppression, initial progress in trade negotiations between the United States and China, and fiscal stimulus in China.

## Commodity Price Indexes



Source: World Bank Commodity Markets Outlook 2019

18. Upside risks to metal prices include the possibility of an interest rate cut in the United States, which is typically associated with an increase in the price of gold and silver.
19. Agricultural prices are expected to increase in 2020 due to lower production and higher fertilizer prices. Downside risks are mainly associated with a possible escalation of trade tensions between the

US and China. Higher-than-projected demand for biofuels could also induce higher prices for some commodities.

## **RECENT DOMESTIC MACRO-ECONOMIC DEVELOPMENTS**

20. Implementation of reforms outlined in the TSP is on course, with notable milestones on fiscal consolidation, monetary policy restoration, liberalisation of the foreign exchange market, structural and governance reforms, re-engagement, investment promotion and support for the productive sector. These reforms, present a strong foundation for economic rebound in 2020 and beyond.
21. However, in 2019, severe exogenous shocks related to climate change caused drought and cyclone which compromised agriculture activities and electricity generation with extended effects on other sectors, - all forcing the economy into recession.

### **Destructions by Cyclone Idai**



## Effects of Drought



## GDP Growth

22. The economy is, therefore, projected to under perform by as much as -3% to -6% in 2019. The sectors projected to slow down include electricity and water, agriculture and mining, with all other sectors being also affected through close linkages.

### GDP Growth (%)

	2019	2020	2021	2022
<b>Overall GDP Growth Rates</b>	-6.5	4.6	7.2	7.1
<b>Core activities</b>	-10.0	5.5	9.2	8.9
Agriculture and forestry	-16.3	10.3	7.7	7.1
Mining and quarrying	-12.3	9.5	13.6	14.3
Manufacturing	-4.3	0.8	9.4	7.4
Electricity and water	-19.8	8.7	11.7	11.0
Construction	-2.5	0.5	1.5	12.9
Distribution, Hotels and restaurants	-9.0	5.3	8.9	7.7
<b>Supportive services</b>	-3.7	3.7	9.6	7.6
Transportation and communication	-3.4	3.2	10.4	7.4
Financial, banking and insurance activities	-4.1	4.6	8.3	7.8
<b>Households-related services</b>	-0.4	2.8	1.2	5.4

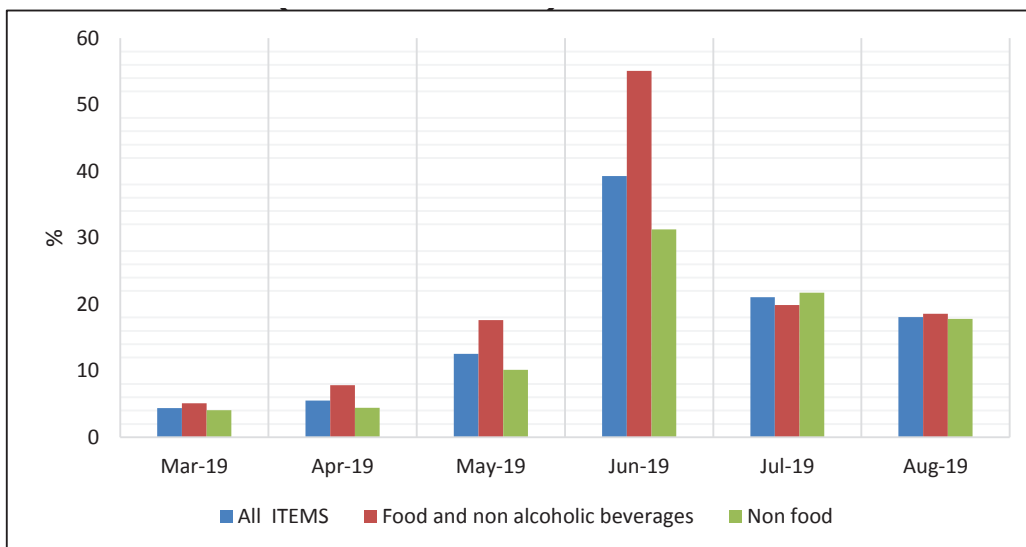
23. The situation is being worsened by shortages of foreign currency, electricity and fuel, all constraining industry operations.
24. However, in 2020, the economy is projected to turn around building on the success of the ongoing reform initiatives and premised on the following broader assumptions:
- Improved rainfall season which should enhance agriculture production and electricity generation with trickle-down effects to all other sectors;
  - Recovery in aggregate demand;
  - Improved foreign currency availability; and
  - Improved macro-fiscal stability and business confidence.
25. As a result, the economy is projected to grow by 4.6% in 2020.

## **Inflation**

26. Inflationary pressures, during the first half of 2019, kept the month on month inflation relatively higher than the TSP targets. The pressure has been emanating from previous year's high money supply growth, driven by huge fiscal deficits. This gave rise to exchange rate misalignment, with further depreciation after the liberalisation of the exchange rate.

27. As a result, month on month inflation was at 10.8% in January 2019, slowed down in February, March and April before firming up in May to reach 39.3% in June.

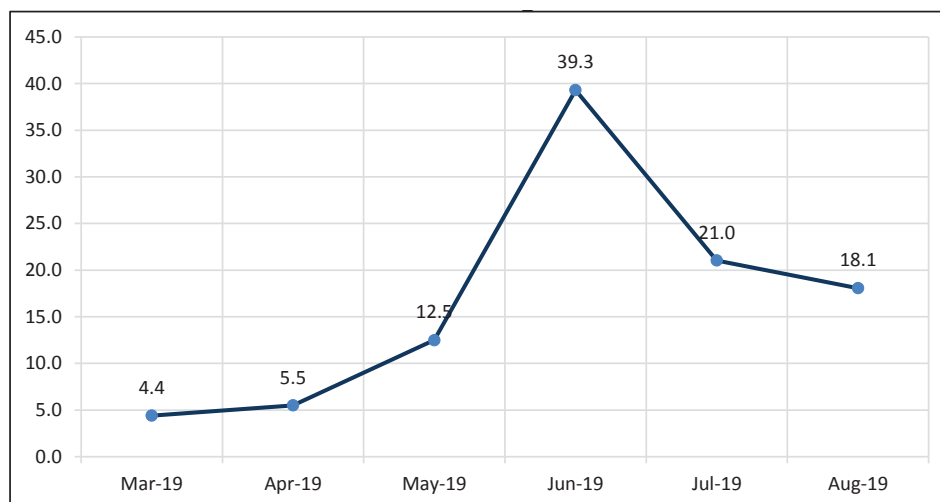
**Inflation Profile (Month-on-Month)**



Source: ZIMSTAT

28. However, following the adoption of mono currency in June 2019, supported by further strengthening of both fiscal and monetary policies, month-on-month inflation retreated to 21% by July 2019 and further down to 18% by August 2019.

### Month-on-Month Inflation: Mar- Aug 2019



Source: ZIMSTAT

29. With continued implementation of fiscal and monetary policy reforms and other structural policies, inflation on monthly basis is expected to stabilise around 10% by end 2019 and at 2.3% by end of 2020.

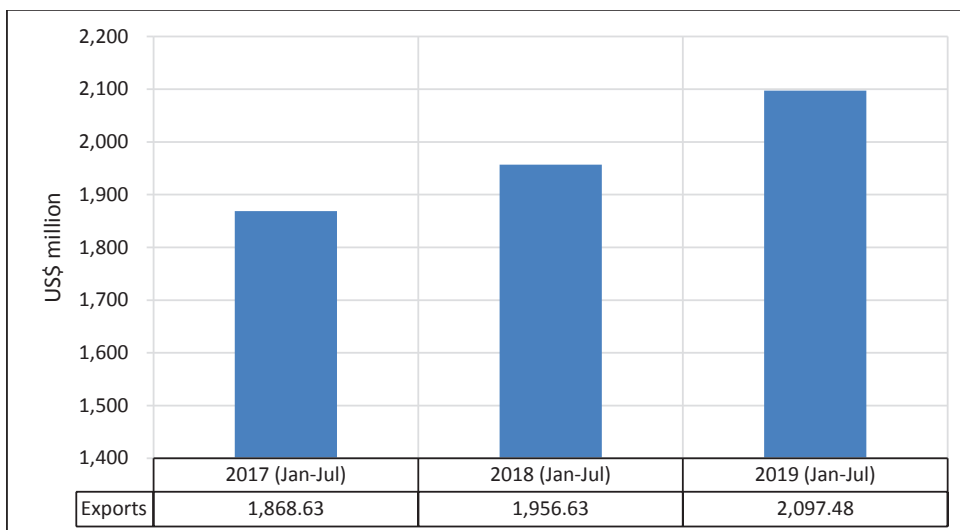
### External Sector

#### *Exports and Imports*

30. Cumulative merchandise exports for 2019 up until July increased by 7.2%, from US\$1.96 billion during the same period in 2018, to 2.1 billion. This is despite a decrease in gold exports, and largely on account of nickel and tobacco.



## Merchandise Exports



Source: ZIMSTAT

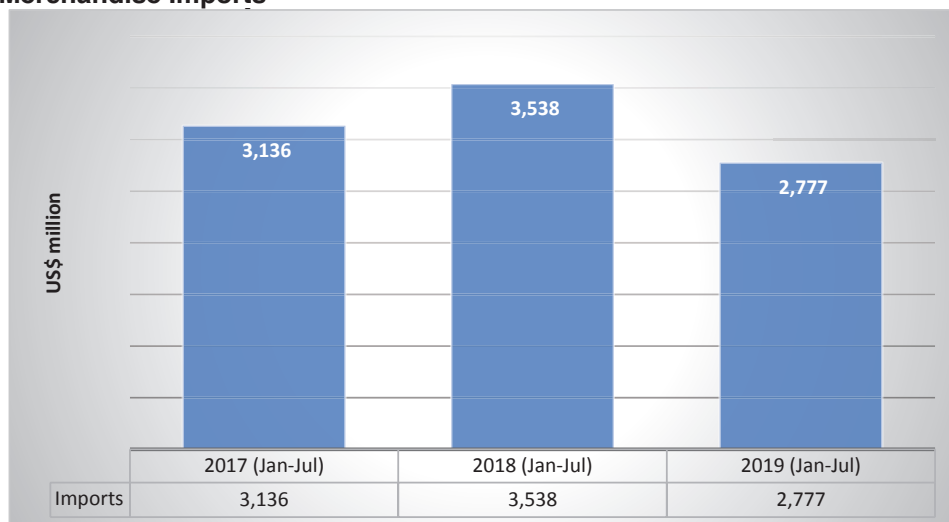
## Exports by Products

Product	Jan-Jul 2018 (US\$ million)	Jan-Jul 2019 (US\$ million)	% Change
Semi-manufactured gold (incl. gold plated with platinum),	669.10	553.13	-17%
Nickel ores and concentrates	212.15	364.75	72%
Nickel mattes	288.84	289.70	0%
Flue-cured tobacco of the virginia type	196.61	234.86	19%
Ferro-chromium, containing by weight	142.79	133.89	-6%
Industrial diamonds unworked or simply sawn,	45.10	63.88	42%
Other articles & parts of precious metal(EXCL. SILVER)	0.53	59.21	10993%
Other cane sugar not containing added flavouring or colouring matter	10.94	37.43	242%
Platinum unwrought or in powder form	25.67	31.57	23%
Chromium ores and concentrates	57.53	28.73	-50%
Coke and semi-coke of coal, of lignite or of peat; retort carbon	13.97	15.14	8%
Black tea fermented/ partly fermented, flavoured or not	15.94	14.21	-11%
Other cigarette tobacco, nes	6.81	13.51	98%
Other products	270.64	257.45	-5%
<b>Total</b>	<b>1,956.63</b>	<b>2,097.48</b>	<b>7%</b>

Source: ZIMSTAT

31. At the same time, merchandise imports for the period under review sharply declined by 21%, from US\$3.6 billion recorded in the comparable period in 2018, to US\$2.8 billion in 2019.

### Merchandise Imports



Source: ZIMSTAT

### Imports by Product

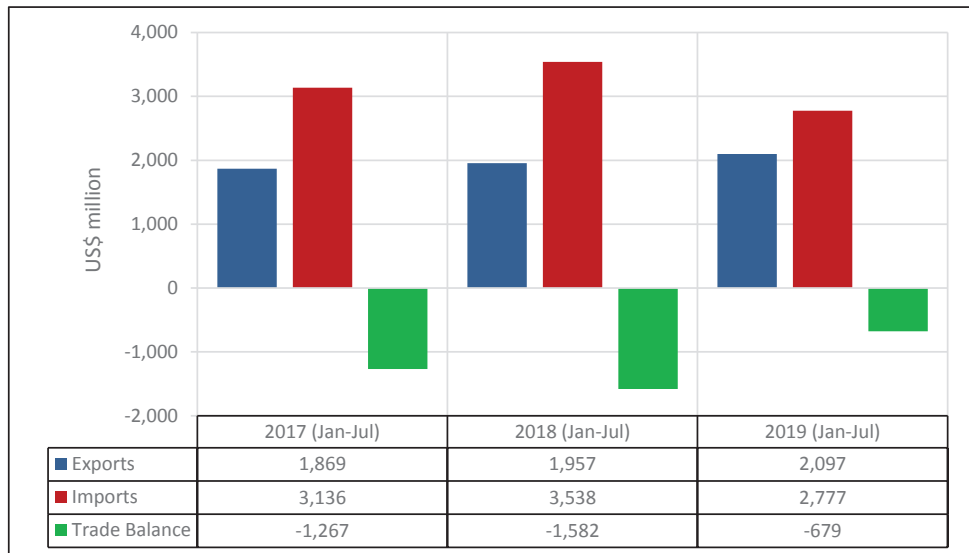
Product	Jan-Jul 2018 (US\$ million)	Jan-Jul 2019 (US\$ million)	% Change
Diesel	527.29	559.22	6%
Unleaded petrol	267.90	253.27	-5%
Crude soya bean oil, whether or not degummed	71.29	45.22	-37%
Medicaments of mixed or unmixed..	43.67	34.43	-21%
Other durum wheat	51.58	32.21	-38%
Road tractors for semi-trailers	25.29	31.79	26%
Electrical energy	108.02	29.03	-73%
Medicaments	19.19	27.39	43%
Motor vehicles	29.89	26.88	-10%
Aviation Spirit	27.92	24.52	-12%
Ammonium nitrate	40.96	23.25	-43%
Other insecticides nes	30.44	20.00	-34%
Goods vehicles, with diesel/semi-diesel engines	18.40	18.46	0%

Product	Jan-Jul 2018 (US\$ million)	Jan-Jul 2019 (US\$ million)	% Change
Lubricating oils & blending stocks	25.66	17.84	-30%
Composite Diagnostic...reagents...	14.94	16.95	13%
Parts for boring or sinking machinery	16.03	16.73	4%
Vaccines for human medicine	15.63	15.99	2%
Other goods	2,204.07	1,583.58	-28%
<b>Total</b>	<b>3,538.17</b>	<b>2,776.78</b>	<b>-22%</b>

Source: ZIMSTAT

32. As a result, the trade balance on goods for the period under review improved by US\$902 million, to a deficit of US\$679 million in July 2019 compared to a deficit of US\$1.58 billion recorded in the comparable period in 2018.

#### Merchandise Trade Balance



Source: ZIMSTAT

33. By December 2019, cumulative exports are expected to record US\$5 billion, against imports of US\$6.3 billion to give a current account deficit of US\$238 million.

#### Current Account Balance

	2016	2017	2018	2019	2020
<b>Current Account</b>	<b>-697.4</b>	<b>-277.6</b>	<b>-1391.7</b>	<b>-237.7</b>	<b>-11.4</b>
Goods: exports f.o.b.	3662.9	4157.2	4669.3	4565.3	5075.6
Goods: imports f.o.b.	4925.5	5090.6	6616.0	5444.5	5748.2
Services: credit	396.7	476.6	500.5	446.7	467.4
Services: debit	1263.8	1130.7	1026.2	856.5	879.7
<i>Balance on goods and services</i>	<i>-2129.6</i>	<i>-1587.5</i>	<i>-2472.4</i>	<i>-1327.8</i>	<i>-1084.9</i>
Primary income: credit	3.3	4.0	4.1	4.3	4.4
Primary income: debit	398.6	391.5	319.1	315.6	322.0
<i>Balance on goods, services, and PI</i>	<i>-2524.9</i>	<i>-1975.0</i>	<i>-2787.3</i>	<i>-1639.1</i>	<i>-1402.5</i>
Secondary income: credit	1853.1	1726.5	1424.2	1390.1	1419.3
of which: Humanitarian assistance	1102.8	1013.4	897.9	861.6	896.1
of which: Household remittances	750.3	713.1	526.3	528.5	523.2
Secondary income: debit	25.6	29.1	28.6	27.4	28.2

Source: ZIMSTAT/RBZ

34. This reflects a major shift towards a balanced current account through export promotion supported by import management measures, which prioritise essential inputs and capital equipment as opposed to non-essential imports.
35. In 2020, exports are projected at US\$5.5 billion with imports growing to US\$6.6 billion on account of higher imports of essential inputs and equipment, including electricity and fuel.

36. In the outlook, emphasis will also be on export diversification and beneficiation of primary commodities to increase the value of exports, that way reducing risks from international price shocks.

## Public Finances

37. Cumulative revenue collections for the first half of the year 2019 stood at ZWL\$4.99 billion, against a target of ZWL\$4.15 billion, giving a positive variance of 20.2%.

38. Similarly, expenditures for the same period were ZWL\$4.2 billion, against a target of ZWL\$3.7 billion, which is ZWL\$532 million over-expenditure (15%).

39. As a result, a budget surplus (savings) of ZWL\$803.6 million was attained during the half year, which culminated in domestic debt decline to ZWL\$8.8 billion as at end June 2019, down from ZWL\$9.5 billion recorded as at 31 December 2018.

### Public Finance Performance and Outlook 2019 (ZWL\$ million)

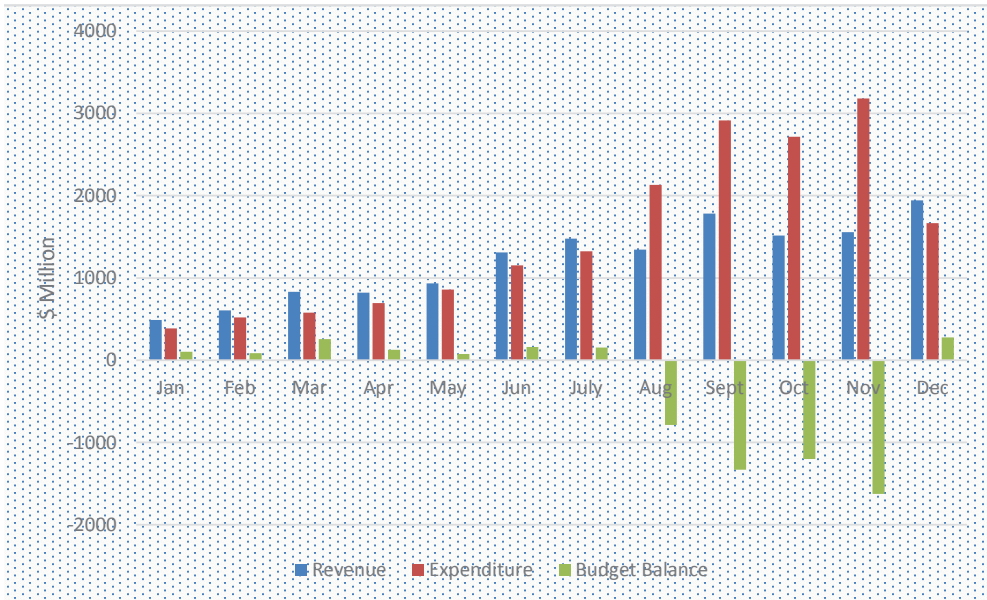
	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Total
<b>Total Revenues</b>	<b>487.6</b>	<b>606.7</b>	<b>832.3</b>	<b>822.0</b>	<b>932.2</b>	<b>1,310.8</b>	<b>1,478.2</b>	<b>1,344.2</b>	<b>1,783.3</b>	<b>1,515.0</b>	<b>1,556.3</b>	<b>1,942.70</b>	<b>14,611.3</b>
Tax Revenues	468.2	597.1	812.2	810.2	912.8	1,279.5	1,435.4	1,278.5	1,681.8	1,406.9	1,445.5	1,809.00	13,937.1
Non-Tax Revenues	19.4	9.6	20.1	11.8	19.4	31.3	42.8	65.7	101.5	108.1	110.8	133.8	674.3
<b>Total Expenditures &amp; Net Lending</b>	<b>385.2</b>	<b>521.3</b>	<b>577</b>	<b>695.3</b>	<b>857.9</b>	<b>1,151.1</b>	<b>1,323.6</b>	<b>2,132.20</b>	<b>2,913.4</b>	<b>2,715.4</b>	<b>3,181.0</b>	<b>1,664.50</b>	<b>18,117.9</b>
Employment Costs	327.4	356.8	330.8	371	393.8	377.4	544.9	516.9	516.9	516.9	772	516.9	5,541.7

	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Total
Operations & Maintenance	27.8	71.3	102.8	154.9	142.2	401	440.9	500	700	600	721.5	555	4,417.4
Interest	29.8	16.7	46.8	31.1	36.4	28.5	30	75.5	45.5	45.5	45.5	46	477.3
Transf to Prov Councils & Local Auth	0	0	0		39.7	1.5	78.8	49	100	125	188	125.8	707.8
Capital Expenditures & Net Lending	0.1	76.5	96.6	138.3	245.9	342.6	229.1	990.9	1,551.0	1,428.0	1,446.0	423.6	6,968.6
<b>Budget Balance</b>	<b>102.4</b>	<b>85.4</b>	<b>255.3</b>	<b>126.7</b>	<b>74.3</b>	<b>159.8</b>	<b>154.5</b>	<b>-788</b>	<b>-1,330.1</b>	<b>-1,200.4</b>	<b>-1,624.7</b>	<b>278.2</b>	<b>-3,706.6</b>

Source: MOFED

NB January to July are actuals. August to December are estimates.

40. Revenue collections to year end are projected at ZWL\$14.1 billion, whilst expenditures are estimated to reach ZWL\$18.6 billion, to give a modest deficit of 3.3 to 4% of GDP in line with the SMP and TSP targets.



## THE 2020 MACRO-FISCAL FRAMEWORK

41. Consistent with projected GDP growth of 4.6% and nominal GDP of ZWL\$209.3 billion in 2020, revenues are expected at ZWL\$24.8 billion (11.8% of GDP), while expenditures are estimated at ZWL\$28.5 billion (13.6% of GDP).

### Macro-Fiscal Framework: 2019-2022

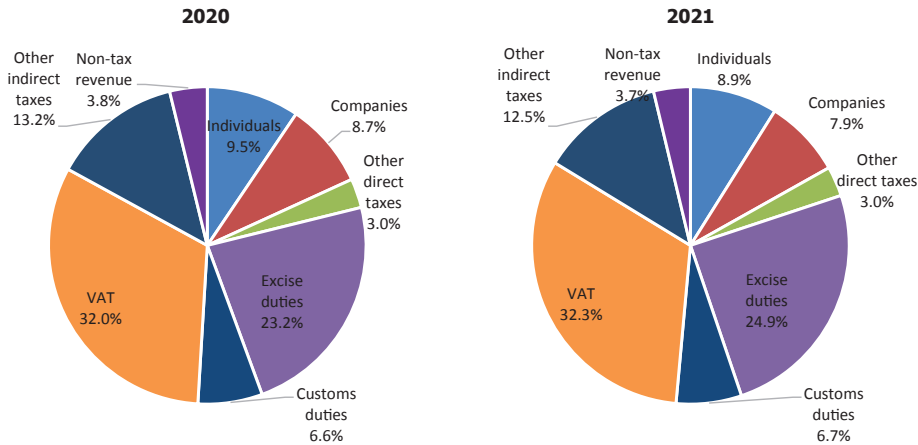
	2019	2020	2021	2022
<b>National Accounts (Real Sector)</b>				
Real GDP at market prices ( (Million ZWL\$)	18554.5	19401.7	20797.1	22264.5
Nominal GDP at market prices (Million ZWL\$)	113549.9	209341.9	263702.9	311268.4
Gross Capital Formation	10239.4	12982.8	17004.9	20070.6
% of GDP	9.0	6.2	6.4	6.4
Real GDP Growth (%)	-6.5	4.6	7.2	7.1
Per Capita Income	7393.1	13297.6	16342.1	18819.3
<b>Government Accounts</b>				
Revenues (including Retained Revenue)	14060.0	24800.2	33852.2	39958.3
% of GDP	12.4	11.8	12.8	12.8
Expenditures & Net Lending (Million ZWL\$)	18620.4	28571.3	38601.8	45564.1
% of GDP	16.4	13.6	14.6	14.6
Recurrent Expenditures	11552.4	21428.4	28951.3	34173.1
% of GDP	10.2	10.2	11.0	11.0
Employment Costs	5556.0	10971.4	14823.1	17496.6
% of GDP	4.9	5.2	5.6	5.6
Capital Expenditure & Net lending	7068.0	7142.8	9650.4	11391.0
% of GDP	6.2	3.4	3.7	3.7
Overall Balance	-4560.4	-3771.1	-4749.6	-5605.8
% of GDP	-4.0	-1.8	-1.8	-1.8

42. Of the total anticipated revenue, tax collections, are expected to increase to ZWL\$23 853 billion in 2020 from ZWL\$13.3 billion in 2019.

Similarly, non-tax revenue is expected to surge to ZWL\$948 million from ZWL\$655 million.

**Revenue Sources (ZWL\$)**

	2020	2021
Tax Revenue	23 853	28 553
Non- Tax Revenue	948	1 110
<b>Total</b>	<b>24 800</b>	<b>29 663</b>



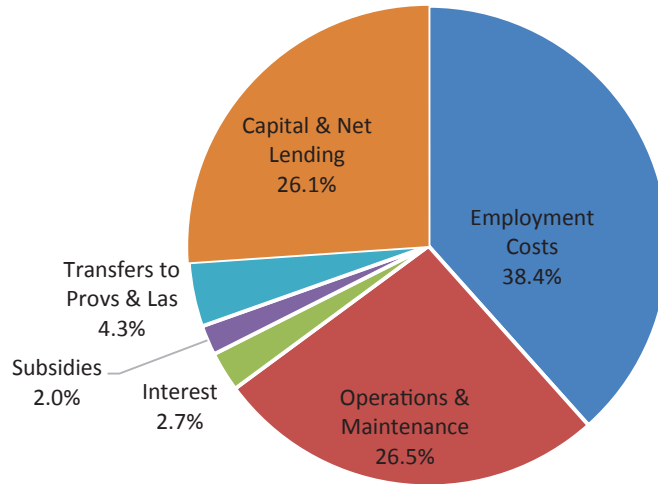
Source: MOFED

*Fiscal Target*

43. Total revenue collections supported by anticipated domestic market financing estimated at ZWL\$4.7 billion can only sustain expenditures of ZWL\$28.4 billion. Of the total expenditures, capital expenditures are set at ZWL\$7.1 billion while recurrent expenditure is projected at ZWL\$21.4 billion.



### Breakdown of Expenditures



Source: MOFED

44. As a result, a sustainable budget balance of 1.8% of GDP is targeted, in line with the TSP objectives on strengthening macro-stability.

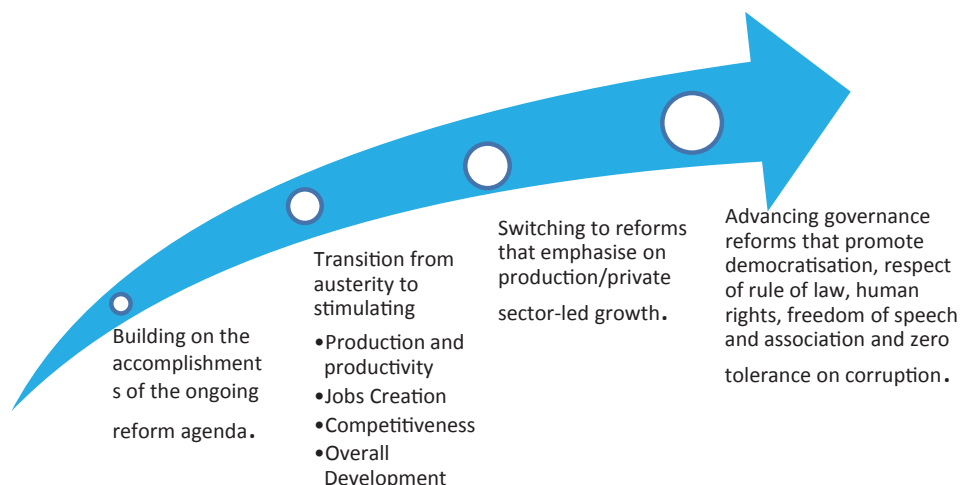
### Fiscal Balance

	2019	2020	2021	2022
<b>Government Accounts</b>				
Revenues (including Retained Revenue)	14060.0	24800.2	33852.2	39958.3
Expenditures & Net Lending (Million ZWL\$)	18620.4	28571.3	38601.8	45564.1
Overall Balance	-4560.4	-3771.1	-4749.6	-5605.8
% of GDP	-4.0	-1.8	-1.8	-1.8

## THE 2020 NATIONAL BUDGET OBJECTIVES

45. While the 2020 National Budget will continue to consolidate macro-fiscal stabilisation gains made in 2019, the thrust will now shift to the following areas:

- Growth and productivity;
- Jobs creation;
- Competitiveness; and
- Promotion of more sustainable and shared development.



## Fiscal Policy Thrust

46. The 2020 Budget will focus on enhancing revenue collection through advancing the ongoing ZIMRA and other administrative reform initiatives on broadening the tax base and closing revenue leakages.
47. Therefore, prominence will be on improving taxpayer compliance through facilitative Information Communication Technology based processes that, among other measures, simplify tax payment procedures, minimise taxpayer costs and also enhance records management.

48. Revenue improving measures will, however, also be cognisant of the necessity of supporting the local industry through appropriate tax supportive measures and other tax dispensations.

#### *Expenditure*

49. On the expenditure side, Government spending will be contained within sustainable levels, avoiding recourse to Central Bank overdraft facility and expenditures outside the Budget.

#### *Employment Costs*

50. The inflationary environment has eroded wages and incomes in general.
51. Hence, as the economy recovers, priority should be accorded to cushioning both public and private sector employees through appropriate and sustainable review of incomes and general working conditions. With regards to civil servants, employment costs will be reviewed in a sustainable way within the tax revenue resources.

#### *Supporting Mono-Currency*

52. A stabilising macro-fiscal environment will pave way for initiating the outstanding steps in completing the mono-currency reforms, that way resolving the prevailing cash shortages and also boosting confidence in the local currency.

53. Consequently, the RBZ will continue implementing a tight monetary policy regime that anchors inflation expectations and stabilises the exchange rate. Reserve money growth will therefore be maintained at a target of 10% per annum.
54. Other supportive measures to the mono-currency include:
- Curbing speculative borrowing through appropriate interest rates adjustments (currently increased from 15% to 50% then further to 70% for the RBZ overnight window);
  - Regulating unethical practices on the Stock Exchanges and Bureau De Changes (e.g placed a vesting period of 90 days for dually listed shares);
  - Strengthening the recently established Reserve Bank Monetary Policy Committee & New RBZ Board; and
  - Supporting interbank market through initiatives such as the USD denominated savings bonds currently at 7.5% interest rate.

## **Growth and Productivity**

55. Having established the necessary ingredients for stabilisation through fiscal and current account management, as well as introduction of the mono-currency, a platform for gradually ending austerity measures in favour of growth, productivity and prosperity objectives has been set.
56. In order to enhance the virtues of macroeconomic stabilisation, Government will pay more attention on promoting strong, shared and

sustainable growth and development, meaning taking the economy to higher levels that emphasise on enhanced production and productivity, jobs creation, strengthening competitiveness and inclusive participation and empowerment.

57. This will constitute the last leg of the TSP and transition to the Five Year Development Plans towards Vision 2030.

#### *Mobilising Affordable Lines of Credit*

58. Domestic production is being constrained by reliance on antiquated equipment and machinery which needs to be replaced in order to improve production efficiencies.

59. The 2020 National Budget will, therefore be mobilising affordable lines of credit in support of productive sectors. This will be complemented by resources being mobilised through US\$ Savings Bond proceeds from the domestic market.

#### *Tax Incentives for Productive Sectors*

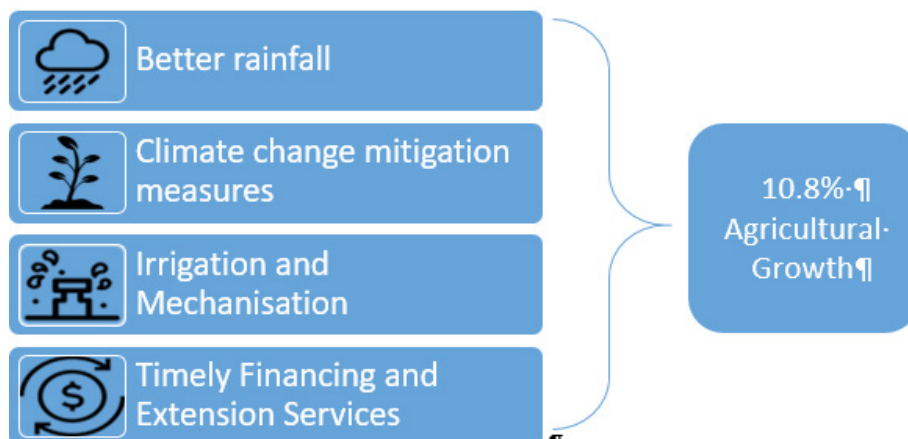
60. Currently, Government is offering a variety of tax incentives to almost all sectors in a bid to stimulate production, enhance competitiveness and attract investment. The 2020 National Budget will, therefore, review the existing tax incentives with a view of further improving productivity.

61. Focus will be on rebates, exemptions and other tax and duty dispensations in support of exporters, special economic zones and projects qualifying for national project status across all sectors of the economy.

## Sector-Specific Strategies

### *Agriculture*

62. Lessons from the 2018/19 drought season are that the country is vulnerable to the effects of climate change, necessitating focus on irrigation, timely financing, adoption of modern technologies, including mechanisation and drought resistant crop varieties as well as continuous capacitation of farmers through appropriate training and extension services.



63. A forecasted better rainfall season combined with the above factors, will see agriculture rebound and growth of 10.3% in 2020.

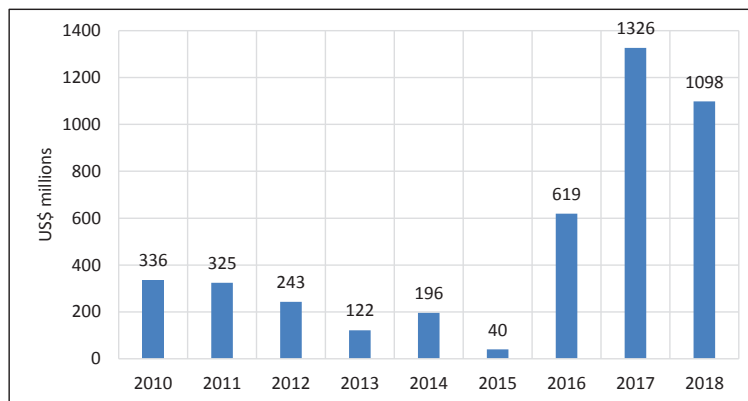
### *Irrigation*

64. Reliance on rain fed farming has proven to be risky and unreliable while the country has abundant water reservoirs which are being underutilised to improve agriculture production.
65. Priority should, therefore, continue to be on finding innovative ways of intensifying rehabilitation and development of irrigation infrastructure across the country, taking cognisance of the change in structures of farmers now dominated by several small farmers.
66. Further, implementation of the Irrigation Master Plan should benefit from partnership between Government, private sector and development partners.

### *Agriculture Financing*

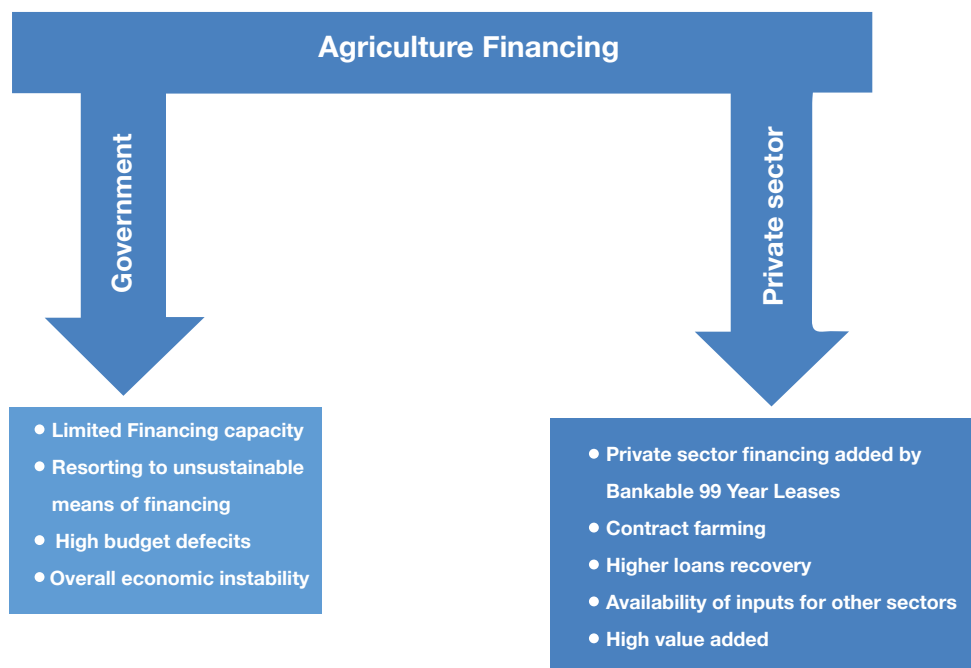
67. Financing for agriculture activities has been a challenge with the burden falling mainly on Government which, to a greater extent, has been contributing to budget deficits.
68. Government financing for commercial agriculture was characterised by abuses by beneficiaries resulting in low recovery rate worsening public finance position.

## Government Spending on Agriculture



Source: Ministry of Finance and Economic Development.

69. Going forward, sustainable agriculture financing that promotes higher private sector participation should be a priority, learning from the success story of tobacco contract farming arrangements which have recorded more than 95% recovery rate.



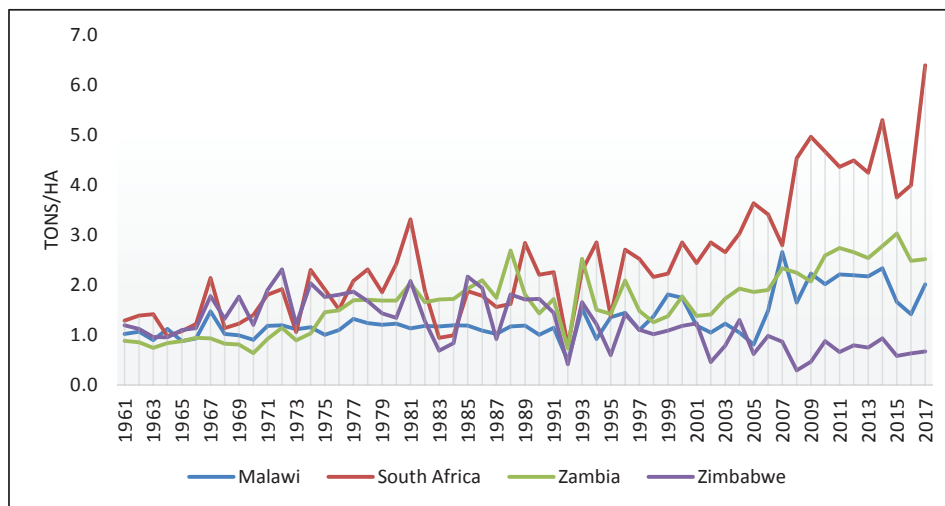


70. The manufacturing sector through contract farming in particular should, therefore, play a bigger role in supporting agriculture, given its dependence on the sector for raw materials. The financial sector will also play a major financing role for agriculture now that the 99 Year Leases are bankable and Government will provide guarantees where necessary. This has already started with the 2019 summer crop.

### *Productivity*

71. Productivity in the agriculture sector remains relatively low with national average of less than 1 ton per hectare for maize compared to Zambia of 2.5 tons/ha and South Africa of above 5 tons/ha.

#### **Maize Yield Trends**



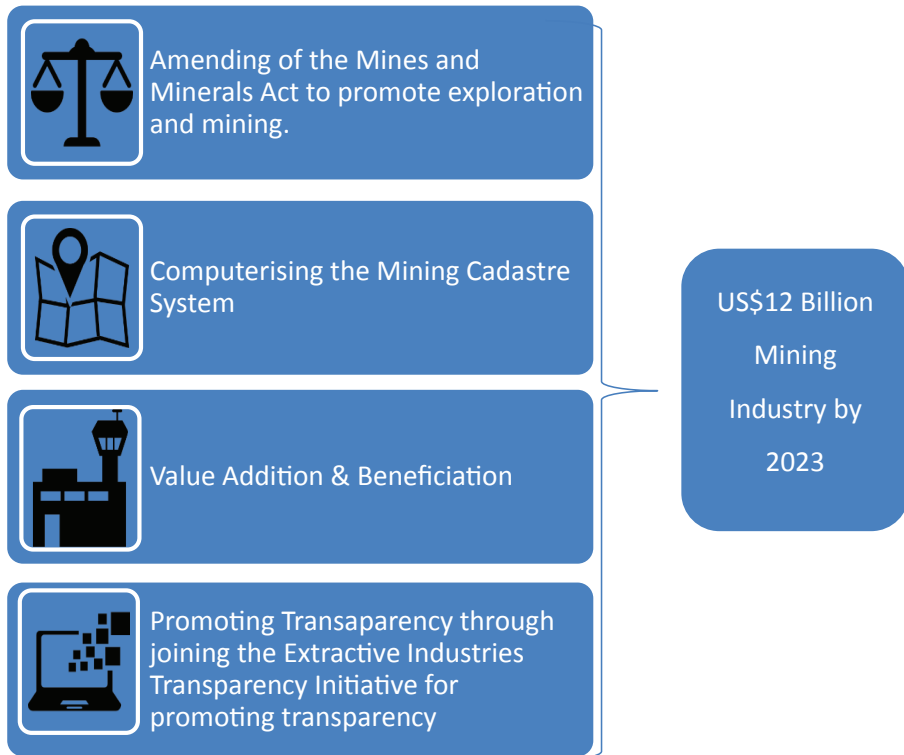
Source: FAO

72. This low level of productivity is common across all other crops and even livestock production.

73. Factors behind low productivity include low skills by farmers, low levels of mechanisation, use of inappropriate farming methods and farmer absenteeism from the plots and farms. To improve on this, the 2020 National Budget should address the effectiveness of extension workers including the mobility to improve knowledge transfusion especially to communal farmers.
74. Furthermore, there is also need to reduce importation of inputs such as fertilizers and chemicals by retooling local manufacturers and facilitating timely foreign currency availability for raw materials.

### ***Mining***

75. The mining industry remains one of the sectors with great potential to anchor growth of the economy. During the first half of 2019, the sector generated US\$1.3 billion, 68% of the country's export receipts of US\$1.9 billion.
76. The mining sector is set to be a US\$12 billion industry by year 2023. This requires collective efforts between Government and the private sector to invest in exploration, extraction, value addition and beneficiation across all minerals.



### *Mines and Minerals Act Amendments*

77. Attention should be on expediting the amending of the Mines and Minerals Act which has been outstanding for a while. Further, interventions to expedite the resuscitation of strategic closed mines should be explored.

### *Minerals Value Addition and Beneficiation*

78. While the country face an acute shortage of foreign currency, there is immense scope for value adding and beneficiating minerals to derive better earnings from our mineral resources.

79. Ongoing milestones in value adding of minerals such as gold, diamonds, platinum, chrome, lithium, coal and nickel require to be expanded in 2020 as the country pursues its value addition strategy.

### *Transparency*

80. Growth of the mining industry, especially for precious minerals such as gold and diamond hinges on transparency. Transparency is critical in attracting investment into the sector, which will ensure the realisation of a US\$12 billion mining industry by 2023.
81. In this regard, the 2020 National Budget should proffer specific steps on Zimbabwe joining the Extractive Industries Transparency Initiative (EITI) as a way for enhancing transparency and curbing any corruption activities in the sector that may deter investment.

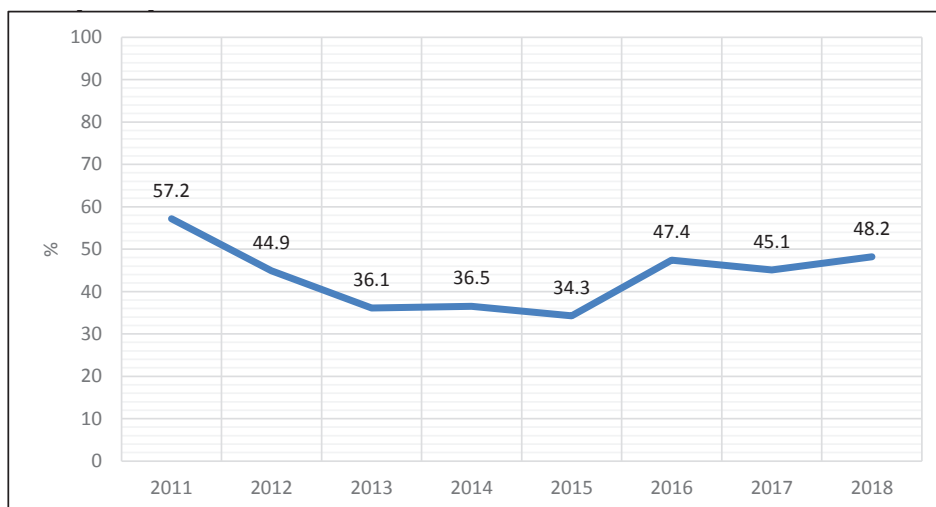
### *Mining Cadastre System*

82. The country is losing potential revenue from the mining industry owing to an archaic cadastre system, which is also causing conflicts through multiple allocation of titles.
83. Proposals for the 2020 National Budget should proffer innovative solutions to expedite the adoption of the computerised mining cadastre system which should also enhance security of tenure and improve revenue collection.

## ***Manufacturing***

84. Capacity utilisation of the manufacturing sector was estimated at 48.2% in 2018 and is projected to have declined below 40% during the year 2019 owing to challenges of foreign currency and energy shortages, among others.

### **Capacity Utilisation**



*Source: CZI*

85. The recently launched Zimbabwe National Industrial Development Policy seeks to support innovation-led and investment-led industrialisation to increase capacity utilisation to above 70% by 2023.
86. The 2020 National Budget should, therefore, seek to restore production as well as increase capacity utilisation of the local industry under the following pillars and strategies:

- Import Substitution
  - Export-led industrialisation
  - Strengthening Value Chains
  - Industrial parks and Innovation Hubs, and
  - Research and Development
87. This thrust should also be supported by advancing the Ease of Doing Business Reforms, as well as addressing the key issues of energy and foreign currency shortages.

### ***Other Service Sectors***

88. Service sectors have not been spared by the current headwinds. However, in 2020, they are also expected to recover significantly banking on an improved macro-fiscal and investment environment.

### **Jobs Creation**

89. Our youths play an integral part in the development of the economy as productive workers, entrepreneurs, consumers and agents of change. However, the full potential of youths is not realised owing to their lack of access to productive and decent jobs, capital and inadequate support in terms of entrepreneurial skills.
90. In order to promote youth participation in the mainstream economy, Government, through the 2020 National Budget will take a two-pronged

approach entailing incentivising hiring of youths and supporting youth entrepreneurship.

### *Tax Rebates*

91. Appropriate tax rebates will be considered for each additional job created for the youth. Similarly, Government in cooperation with banking sector will be negotiating and setting up a number of facilities is support of young entrepreneurs. Such programmes will have in-built appropriate training to enhance various planning and management skills that improve sustainability of the projects.

### *Venture Capital Funding*

92. As already alluded to in the 2019 National Budget Statement Government is seeking to promote investment in small enterprises through venture capital funds.
93. In this regard the venture capital funds will use the existing Alternative Trading Platform (ATP) or exchange to list shares of companies financed by venture capital funds.
94. SECZ will, therefore, come up with a regulatory framework to facilitate investment of venture capital funds in the market.

## Competitiveness

95. In addition to supporting the mono-currency regime which enhances competitiveness of the local industry, the 2020 Budget will further advance ongoing initiatives on improving the business environment.

### *Ease of Doing Business Reforms*

96. Between 2011 and 2018 Zimbabwe efforts to improve business environment were recognised by the Doing Business Project. Zimbabwe was credited with 12 reforms as measured by Doing Business in the areas of:

- business start-up;
- dealing with construction permits;
- property registration;
- getting credit; and
- protecting minority investors, paying taxes and enforcing contracts.

### **Ease of Doing Business in Zimbabwe**

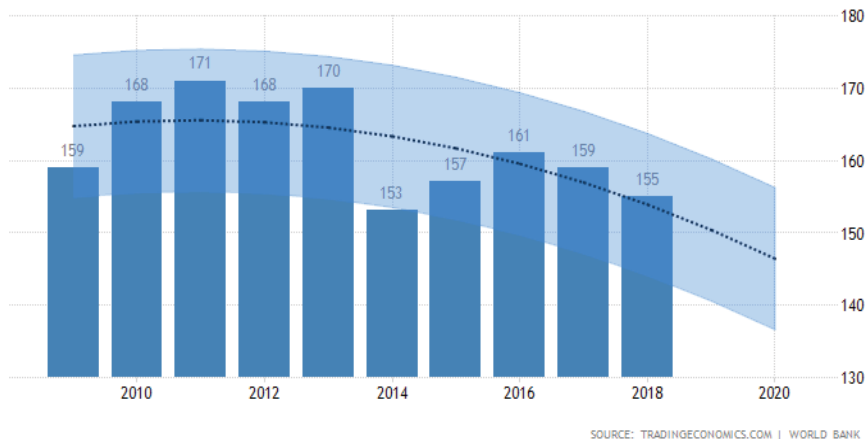
Zimbabwe Business	Last	Previous	Highest	Lowest	Unit	
Internet Speed	3698.48	4137.17	4687.94	98.62	KBps	[+]
IP Addresses	37456.00	35065.00	39822.00	5516.00	IP	[+]
Ease of Doing Business	155.00	159.00	171.00	153.00		[+]
Corruption Index	22.00	22.00	42.00	18.00	Points	[+]
Corruption Rank	160.00	157.00	166.00	43.00		[+]
Competitiveness Index	42.61	42.01	42.61	2.77	Points	[+]
Competitiveness Rank	128.00	124.00	136.00	112.00		[+]

*World Bank Rankings December 2018*



97. However, year to year improvement on each of the indicator has been limited. Ranking on some of the indicators slipped back, because other countries reformed faster while in some cases Zimbabwe imposed new hurdles.

#### Ease of doing business Index



98. In the 2020 National Budget, Treasury will support the following areas:

- Consolidation in the payment of taxes - reduce time taken to pay taxes;
- Trading across borders - reduce turnaround time of clearance of imports and exports by;
- Enforcement of contracts - promulgate the Commercial Court Rules;
- Getting Electricity - reduce number of days to get connected to electricity; and

- Upgrading existing IT infrastructure so that all technology-driven reforms are concluded.

*Repeal of the Indigenisation and Economic Empowerment Act*

99. Steps towards repealing of the Indigenisation and Economic Empowerment Act by removing the last two minerals of diamonds and platinum from the reserved list is at an advanced stage. Accordingly, shareholding on platinum and diamonds will be based on open negotiations between Government and interested investors.
100. Similarly, the repealing of the Indigenisation and Economic Empowerment Act will be replaced by an Economic Empowerment Act which will be investor friendly.

*Zimbabwe Investment Development Agency*

101. Another key milestone under the 2019 National Budget is the operationalisation of the One Stop Shop Investment Centre, Zimbabwe Investment Development Agency (ZIDA). The respective Bill is going through final Parliamentary processes.
102. In the same vein, progress has also been made in addressing administrative and other legislative constraints that were hindering the doing business environment as outlined in the TSP.

103. An appropriate 2019/20 plan is being developed and being coordinated by the Office of the President and Cabinet and commitments to implement necessary reforms have been secured from respective line Ministries at high level.

*Bilateral Investment Promotion and Protection Agreements (BIPPAs)*

104. Government recognises the crucial importance of guaranteeing private investments, as a way of boosting investor confidence and attracting investment into the country.

105. Accordingly, at least 9 signed BIPPAs will be ratified before end of the year 2020 while pursuing negotiations to sign new agreements with strategic countries.

*Labour Reforms*

106. Government is in the process of amending the Labour Act to align it with the Constitution and ILO Conventions. Specifically, these amendments relate to streamlining the retrenchment process and the dispute settlement process to make them easy and efficient.

107. The reforms also seek to provide for paid educational leave, protection against forced labour, removal of the qualifying period for maternity leave and amend the right to collective bargaining and the right to organise.

108. Labour reforms are a process and the recently established TNF constitutes an appropriate platform for advancing necessary reforms in this area.

### *Trade Policy*

109. Growth will be anchored through promotion of both regional and international trade. The country is a member of various regional organisations seeking to promote inter-trade and regional growth. These include SADC, COMESA and WTO, among others.

110. Recently, the country signed and ratified the African Continental Free Trade Area (AfCFTA), which seeks to create a single market for goods, services and movement of persons in order to deepen the economic integration of the African continent.

111. In view of opportunities arising from membership to the above organisations, the 2020 National Budget should seek to support industry competitiveness through various ways such as fostering macro-economic stability, cost effective infrastructure and utilities, as well as removing various bottle necks under the ease of doing business reforms.

## SOEs Reforms

112. Government is undertaking state enterprises reforms, with decisions having been made on either privatization, de-merger, disposal, strategic partnerships and reverting to be Government Department depending on the situation for each SOE.

**RESTRUCTURING State-Owned Enterprises (SOEs)**

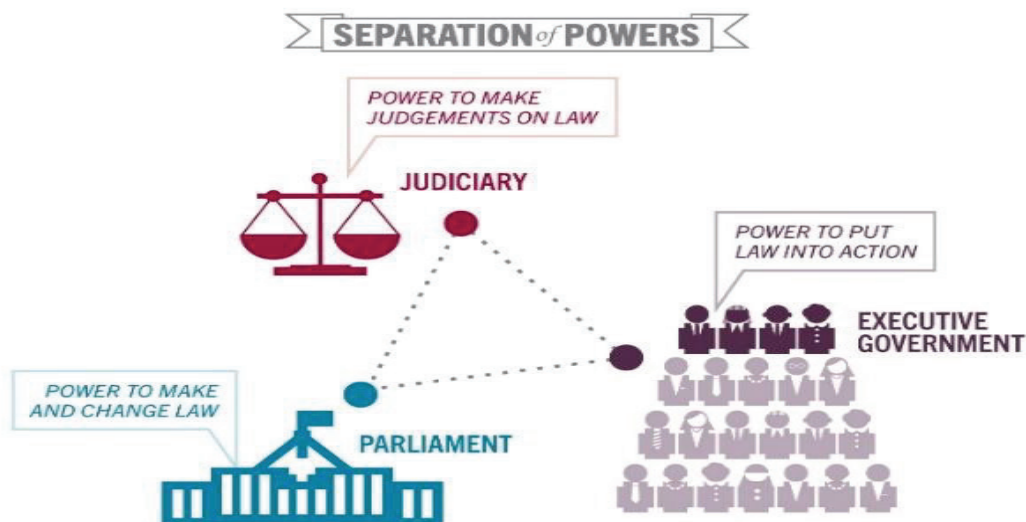
- To be Privatised**
  - \* Infrastructure Development Bank of Zimbabwe (IDBZ)
  - \* ZUPCO
  - \* Agribank
  - \* Some subsidiaries of the Industrial Development Cooperation (IDC)
- To be listed ZSE**
  - \* Petroltrade
  - \* Willowvale Motor Industries
  - \* Chemplex Corporation
  - \* Deven Engineering
- To be merged**
  - \* Potraz & BAZ
  - \* Powertel Zamet & Africom
  - \* Boxing & Wrestling Boards
  - \* Competition Tariffs & National Competitiveness Commissions
  - \* ZIA, Special Economic Zones
  - Zimtrade & Joint Ventures Unit
- To be liquidated**
  - \* National Glass Industries
  - \* Zimglass
  - \* Kingstons Limited
  - \* Tractor firm Motira
- To be adopted by Line Ministries**
  - New Ziana
  - NIEEB
  - National Liquor Licensing
  - Board of Censors
  - Lotteries & Gaming Board
- Partial privatisation**
  - 17 ZMDC subsidiaries
  - The GMB and CAAZ will be unbundled to separate their regulatory & commercial functions

113. Progress in getting investors needs to be accelerated in 2020.

## GOVERNANCE AND LEGISLATIVE REFORMS

114. Strides have been made towards implementing governance reforms aimed at upholding property rights, strengthening human rights, freedom of expression and association. In this regard, the process of

repealing AIPPA and POSA is now at an advanced stage. Furthermore, the alignment of various laws to the Constitution is ongoing.



115. The 2020 National Budget should, therefore, advance governance reforms to promote democratic values.

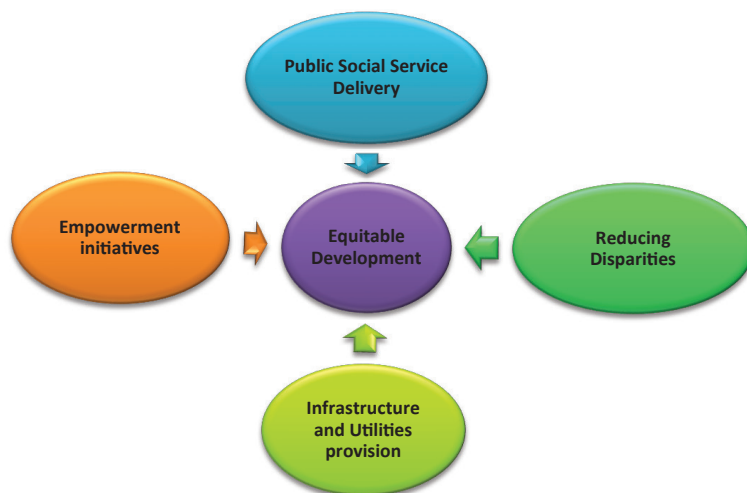
#### *Compensation of Former Farmers*

116. During the year 2019, progress has been made in engaging the former commercial farmers to resolve the issue of compensation for developments on farms as enshrined in the Constitution and in line with BIPPAs.
117. The 2020 National Budget will, therefore, pursue the engagements with a view to reach consensus on the global compensation figure.

118. Further, the Budget will make provisions for compensation, while also engaging development partners on alternative ways of mobilising more resources to conclude compensation under the Land Reform Programme.

## Equitable Development

119. Focus on growth and development from 2020 means reorienting policies, programmes and resources on reducing disparities on affordability, accessibility and availability of economic opportunities among the citizenry. This entails focusing on empowerment programmes, enhanced public service delivery, including infrastructure and utilities, social services and safety nets, among others.



### *Social Services Delivery*

120. The unfavourable macro-economic environment has compromised delivery of quality social services in health and education. The

inflationary environment has also compromised 2019 original Budget allocations and prospects for adequate funding in 2020 remain a challenge.

121. Hence, the 2020 National Budget will give priority to funding of social services including social safety nets to protect the vulnerable, taking advantage of ring-fenced collections from the 2% Intermediated Money Transfer Tax (IMTT).

#### *Capital Development Budget*

122. Capital Development Budget in 2020 is projected at ZWL\$7.1 billion, which is 28% of total revenue, to address under-provision of infrastructure services which is apparent in almost all sectors. This is critical for supporting sustained growth of the economy.
123. To enhance the impact of capital expenditure on the economy and the population at large, the 2020 National Budget should prioritise:
  - On-going projects with existing contractual obligations;
  - New and stalled projects ready for implementation, particularly those which can be completed within the Budget year;
  - Growth enhancing investment projects, and economic enablers with potential to unlock significant private sector investments;



- Projects that address emerging infrastructure gaps, such as Cyclone Idai, and which threaten the safety and health of citizens; and
  - Projects with potential to generate own cash flows for sustainable delivery of public services.
124. Submissions on capital expenditure for projects will also leverage on regional projects, which are critical in the materialisation of the regional integration initiative and provide opportunity for tapping into international finance.

### *Energy*

125. The country is facing some shortage of electricity and fuel, which are key inputs in domestic production processes. The constrained power supply is emanating from depressed local generation and limited foreign currency to import.
126. Resultantly, the country is resorting to load shedding of up to 18 hours in worst cases. This translates into immense losses in terms of production, exports and revenues.
127. Where companies have resorted to use of alternative power sources such as fuel powered generators, this has escalated production costs.

128. Given the capital intensive nature of the power sector projects and their long gestation period, benefits from new projects can only be expected in the medium term. This, therefore, requires that in the short term, the economy close the power deficit gap through imports.
129. Already, imports of 400MW and 100MW has been secured from South Africa and Mozambique, respectively, while Government pursue projects such as rehabilitation and extension of Hwange power station and repowering of other small thermal power projects.

Construction site overview



Unit 7 main power building superstructure construction



130. Similarly, the 2020 National Budget will also focus on supporting preparatory works on the Batoka Gorge and other new solar and mini hydro power projects.

## *Roads*

131. Sound road infrastructure is important for reducing the local cost of doing business, hence the need to continue with the current momentum to rehabilitate our road network across the country including feeder roads critical to link the rural community to markets and essential services.



## *Water and Sanitation*

132. The prevailing shortages of portable water and proper sanitation is a threat to livelihoods in both urban and rural areas.



133. Inadequate water supply is also imposing a premium to the local industry making it uncompetitive.



134. In view of this, submissions for the 2020 National Budget should prioritise the rehabilitation and upgrading of water and sanitation infrastructure to improve access to clean water and sanitation, especially for city and town councils.

*Local Authority Service Delivery*

135. Ideally, Local Authorities are best positioned to manage public service delivery at local level, taking advantage of residents' participation, allocations from the Central Government under the Devolution and other programmes.

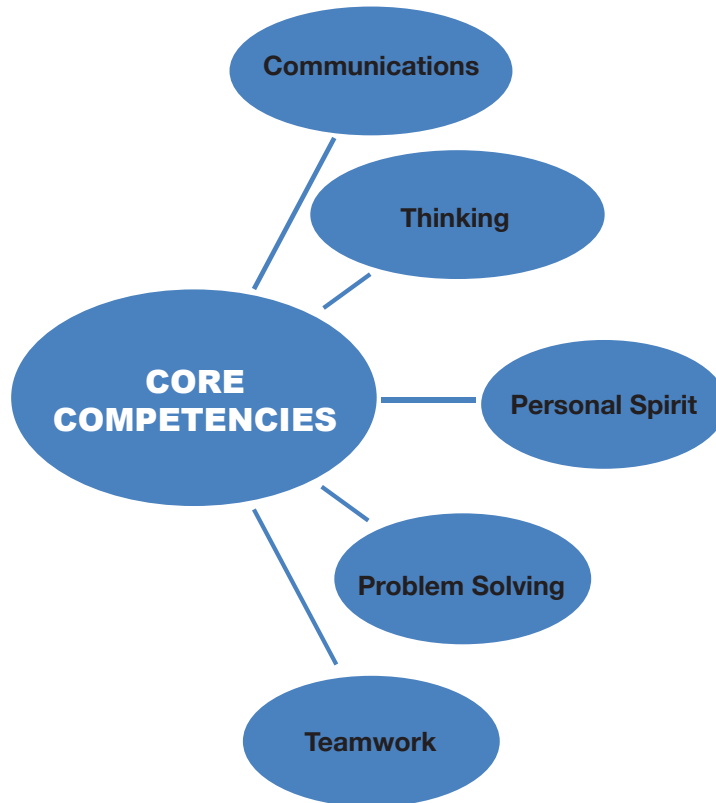
136. However, service delivery by local authorities remains below expectations, forcing central Government to directly intervene to alleviate potential disasters.
137. Recently, Treasury has had to disburse about ZWL\$37.4 million, which was further increased by another ZWL\$42 million in support of water and sanitation delivery for the City of Harare. The resources are primarily for procurement of water treatment chemicals as part of interim measures to deal with the capital's water challenges.
138. A comprehensive assessment of the cities' public service deficiencies is being carried out with a view of central Government working closely with local authorities and other partners for the improvement of public welfare.

### *Social Infrastructure*

139. Quality social service delivery hinges on the availability of appropriate and modern social infrastructure. In this regard, the country social infrastructure has become dilapidated due to limited investments over the years.
140. The 2020 National Budget should, therefore, prioritise the upgrading, expand and modernise social infrastructure including ICT infrastructure, as the country moves towards a digital economy.

## Human Resource Development

141. Meeting current and future challenges require higher degree of competencies. This is moreso, in the present competitive situation where competent and motivated employees are essential to survive, grow and excel.



142. To rebuild the economy, and maintain sustainable growth level towards Vision 2030, competencies of employees need to be sharpened or developed as the economy operates in a changing competitive global environment.

### *Higher Education and Skills Development for the Future*

143. Under the New Dispensation, national budgets will focus more on provisioning of resources towards education and skills development, including higher education, and training after school, most of which is received through technical and vocational colleges and other training colleges.
144. The objective is to up-skill and build innovation culture in individuals, that way opening up life and job opportunities to fight poverty.
145. The 2020 Budget will, hence, prioritise and allocate resources for research and development targeting specific areas, including the launch of Zimbabwe Satellite into space.

### *Research and Development*

146. Research and development is critical for the Zimbabwe's social economic transformation and competitiveness as the country strives to attain Vision 2030.



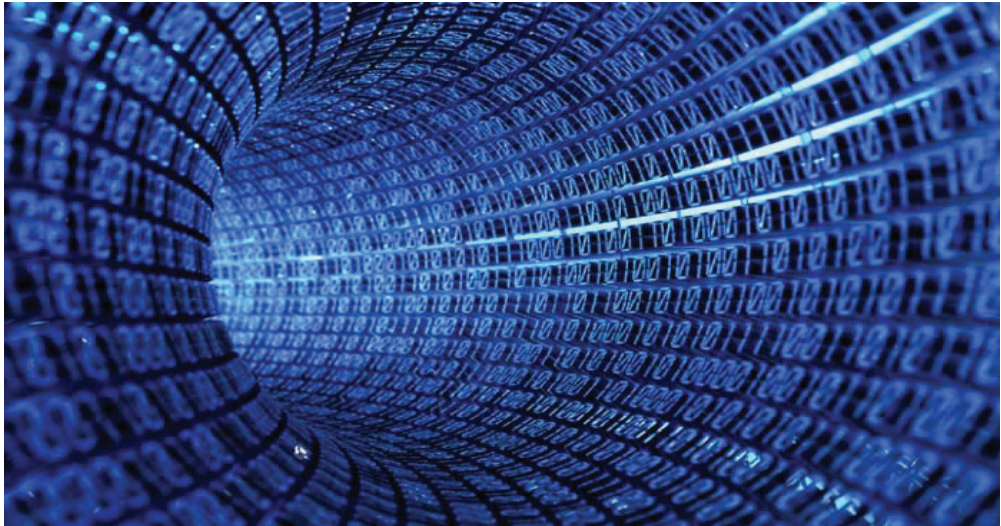
Adopted from: <https://www.ucdavis.edu/sites>

147. Currently, the Research Council of Zimbabwe is working closely with Ministry of Higher and Tertiary Education, Science and Technology Development, ZIMSTAT, SMEs Development and other stakeholders in conducting a nationwide Research and Development Survey covering SMEs and cooperatives.
148. Similar Research and Development Programmes will be supported, by both Government and private sectors as the country seeks to innovate in developing new services or products, and also advance the value addition strategy.

### *ICT and Digital Economy*

149. Zimbabwe will take advantage of its human capital resources in ICT to drive a digital economy, by investing in hubs of excellence in ICT services and entrepreneurship. These would become world class service centres that will enhance the country's competitiveness.





150. The hubs are part of Education 5.0, which empowers universities to enter into strategic partnerships with industry in order to produce competitive products and services.
151. The innovation hubs concept is also meant to refine Zimbabwe's education system, which has been lagging behind in terms of production of innovative graduates.
152. Treasury has therefore, disbursed over ZWL\$26 million for the construction of six innovation hubs and industrial parks at higher learning institutions.
153. As a result, two innovation hubs were commissioned at the Universities of Zimbabwe (UZ) and at Midlands State University (MSU).



154. Those at the Harare Institute of Technology (HIT), Chinhoyi University of Technology (CUT), National University of Science and Technology (NUST) and the Defence University are on the commissioning line.
155. On industrial parks, CUT has already set a ZWL\$3 million artificial insemination programme which has the capacity to generate at least ZWL\$130 million annually, while boosting livestock production.
156. Government will, therefore, avail funds to ensure the completion of these innovation hubs and expand industrial parks to other universities and colleges.

### *E-Government*

157. Government has leap-frogged in delivery of essential public services which were previously centralised in Harare. Currently, processes

have turned online while extending infrastructure facilities to those areas that are still offline.



Source: <https://www.google.com/search?biw>

158. The 2020 National Budget will, therefore, support the roll out of E-Government to cover various services and spatial remote areas, as part of public service efficiency enhancement under the New Dispensation.

#### *E-Procurement*

159. In addition, Zimbabwe's Public Procurement Modernisation Programme has yielded a number of positive results. The reforms were necessitated by the requirement to realign procurement laws with provisions of Section 315 of the Constitution of Zimbabwe, and were informed by a Country Fiduciary Integrated Assessment that produced a Country Procurement Assessment Report.

160. Among the results of this project were the development of new procurement laws, Public Procurement and Disposal of Public Assets Act (Chapter 22:23) and the Public Procurement and Disposal of Public Assets (General) Regulations (Statutory Instrument 5 of 2018) which significantly changed the landscape of public procurement.
161. The project developed the e-procurement strategy that was adopted by Government. It also developed e-procurement system requirements and statement of user requirements that were adopted by the Government.
162. The 2020 National Budget will, therefore, make provisions for strengthening the e-procurement system.

### Arrears Clearance Roadmap

163. The country's total public and publicly guaranteed external debt position is estimated at US\$8 billion as at end of June 2019. Of this, US\$5.9 billion constitutes accumulated arrears (74% of total external debt).

#### Public and Publicly Guaranteed External Debt (US\$ millions)

			Grand Total
	DOD	Arrears	
External Debt	2,118	5,899	8,017
<i>a. Bilateral Creditors</i>	<i>1,811</i>	<i>3,657</i>	<i>5,469</i>
Paris Club	194	3271	3,464

			Grand Total
	DOD	Arrears	
Non Paris Club	1,255	309	1,564
RBZ Assumed Debt	363	78	441
<b>b. Multilateral Creditors</b>	<b>307</b>	<b>2,241</b>	<b>2,548</b>
World Bank Group	208	1255	1,463
African Development Bank	35	667	702
European Investment Bank	19	290	309
Others	45	28	74

Source: MoFED

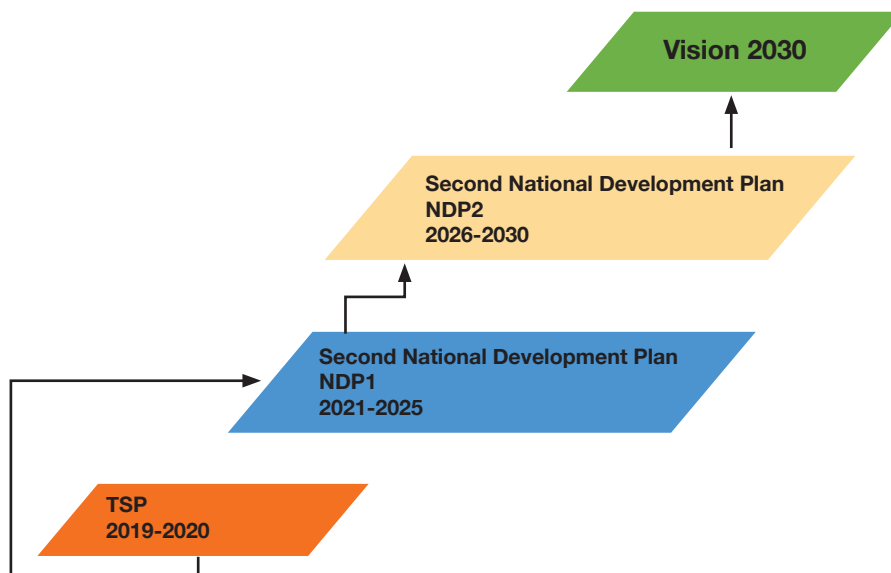
DOD = Disbursed Outstanding Debt

164. The continuous accumulation of arrears remains a major setback on Zimbabwe’s development agenda, hence, the need for re-engagement with international development partners for arrears clearance and debt relief. The clearance of the arrears to the Multilateral Development Banks, Paris Club, Non-Paris Club and other creditors requires a comprehensive and well-coordinated approach.
165. As part of the roadmap to arrears clearance, Government signed a Staff Monitored Program (SMP) with the International Monetary Fund (IMF) covering the period May 15, 2019 to March 15, 2020 with quarterly performance reviews.
166. The SMP seeks to assist Zimbabwe implement key reforms, as outlined in the Transitional Stabilisation Programme (TSP), and build a track record of implementing sound economic policies as it seeks to normalise relations with the international community.

167. Successful implementation of the SMP, in conjunction with reforms in the TSP, is key in the mobilisation of critical support from development partners for a comprehensive arrears clearance and debt relief program. This will be critical for Zimbabwe to achieve private sector-led sustainable and balanced economic growth.

## SUCCESSOR PROGRAMME

168. The TSP was a short term plan and is set to come to an end in December 2020. There is, therefore, need to begin the process of crafting a successor plan – the First Five Year Development Plan (2021-25).
169. The successor plan will carry on with the outstanding reform processes, with much bias on development aspect towards attainment of Vision 2030 of an ‘*Upper Middle Income Status*’.



170. As contribution to the 2020 National Budget, there is need to start to review the achievements and what is attainable in 2020 under TSP, which should guide what needs to be included in the successor plan.

## **CONCLUSION**

171. Building on the accomplishments of the ongoing reform agenda, the thrust of the 2020 National Budget is to transition from austerity policy position to supporting growth and productivity, without compromising medium to long term fiscal sustainability.

172. Therefore, the 2020 National Budget should build on the ongoing reforms to enhance the doing business environment so as to promote private sector-led growth, employment creation and sustainable development.

173. The 2020 BSP, therefore, anticipates stakeholders to rally behind the macro-fiscal consolidation and productivity enhancement agenda, as we conclude implementation of the TSP.

**Minister of Finance and Economic Development**

September 2019

