ZIMBABWE

GOVERNMENT'S PROGRESS ON POLICY REFORMS

March 2019

Minister of Finance and Economic Development

Introduction

1. Government launched its economic reform programme under the name Transitional Stabilisation Programme (TSP) in October 2018. The Programme aims at stabilising the economy, attracting investment, re-integrating the country into the global economy and laying a foundation for Strong, Shared and Sustained growth.

2. The Programme also contains several key reform initiatives for promoting good governance as an essential ingredient for socio-economic development.

3. Implementation of the Programme is already underway through the 2019 National Budget. This report, therefore, takes stock of progress achieved to date.

Economic Outlook

4. We anticipate GDP growth of 4% in 2018, primarily driven by agriculture, mining and services. Strong economic activity is, however, confined to the first 9 months of the year, with challenges related to prices increases, fuel and foreign currency shortages stalling the economy to reach higher levels of growth.

5. Agriculture, which experienced high growth rates of 12% in 2018 driven by cash crops and livestock production, will however, see some loss in grain yields in 2019 owing to late and below rainfall pattern, high cost of inputs and outbreak of diseases. Hence, the sector is therefore projected to grow by a modest 3%.

6. Mining industry continue to grow significantly with estimated growth of 13% in 2018 driven by major minerals of gold, platinum, diamond and nickel. In 2019, growth momentum will remain positive, albeit facing risks mainly related to foreign currency shortages.

7. The revival of the manufacturing sector looks positive, reflecting some benefits from the ongoing ease of doing business reforms, new investments, improving aggregate demand and rekindling of business confidence. Capacity utilisation has since increased to 48.2% by September 2018 from 45.1% recorded during the same period in 2017. In 2019, the sector is projected to grow by 2.5% taking cognisance of drawbacks from instabilities experienced during the last quarter of 2018 and January 2019.

8. Tourists and other services sectors will add impetus to overall growth and are projected to add average growth of 3% in 2019.

9. As a result, overall economic performance in 2019 looks positive at a modest 3.1% with much scope for improvements as the ongoing policy reforms and anticipated external support start to bear fruits.

Fiscal Consolidation

10. A key stabilisation objective of the TSP (Reform Programme) and the 2019 National Budget is fiscal consolidation through containment of fiscal deficit to sustainable levels. This will be attained through broadening of the revenue base including curbing leakages and expenditure containment. The target is to reduce budget deficits from about 12% of GDP in 2018 to 5% in 2019.

11. To date, Government has made some progress in containing expenditures in the following areas:

Treasury Bills

12. The unsustainable practice of financing the fiscal deficit through TBs and RBZ accommodation has been discontinued. Government has since stopped the

issuance of additional Treasury bills at the end of October 2018, except roll overs. This has ensured that Government spends within its means and within the Budget.

Public Wage Bill

13. Government successfully retired 3 188 youth officers in accordance with Cabinet's decision of 5 December 2017. The objective is to rationalise posts in the public service also addressing duplications of functions. This measure translates into monthly remuneration savings of US$395 per each Officer.

14. In addition, Government has effected a 5% salary cut for senior Government Officials from the level of the Principal Directors and their equivalent grades up to the Presidium starting January 2019.

13th Cheque Payment

15. Traditionally bonus payment was computed as the sum of basic salary and other allowances such as transport and housing. However, starting December 2018, a new policy set bonus for civil servants based on the basic salary excluding the allowances. This gave savings of US$75 million in 2018.

Freeze on Hiring

16. Government maintained the freeze on hiring of non-critical staff, while guaranteeing efficiency improvement in provision of public service in health and education. In that regard, Government approved the hiring of additional staff of 1 816 in health and 3 000 in education starting 2019.

Procurement of Vehicles

17. In view of fiscal constraints, Government went further to suspend procurement of ministerial and Parliamentary vehicles despite it being contractual obligation to ensure that resources are channeled towards service delivery.

Revenue Mobilisation

18. As part of the widening of revenue base, in October 2018, Government introduced a 2 percent tax per USD value transacted, replacing a previous tax of 5 cents per transaction. Already, US$52.5 was raised in November and US$103.8 in December 2018 giving a total of US$166.2 million for 2018.

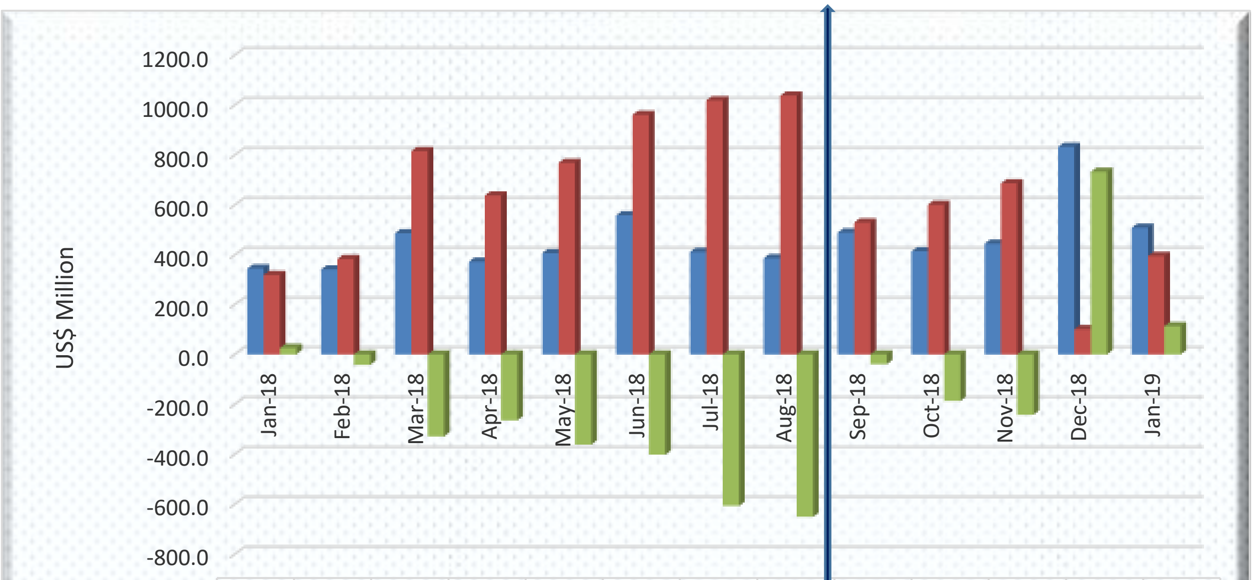
19. By January 2019, the Electronic Transactions Tax raised US$98.5 million and it is anticipated that US$600 million will be raised during 2019.

20. To improve on revenue administration, a new ZIMRA board, the revenue collection authority, was appointed on 19 December 2019. The Board is expected to spearhead the recovery of outstanding debts and other strategic interventions to improve efficiency of the Authority.

21. As a result of the above expenditure management and revenue enhancing measures, monthly budget deficits declined from US$651.2 million in August 2018 to US$39.8 million in September and US$242.1 million in November. Preliminary indications point to a surplus of US$732.7 million in December 2018.

22. With regards to January 2019 preliminary figures, revenue of US$508.5 million were realised against disbursements/commitments of US$395.5 million, indicating a surplus of about US$113 million.

Figure 1: Public Finances: Jan 2018 – Jan 2019



	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Revenue	345.6	341.7	486.7	372.7	406.9	558.3	412.0	386.6	489.4	414.3	444.3	832.8	508.5
Expenditure	319.6	384.0	815.4	637.3	768.3	960.4	1018.8	1037.7	529.2	600.7	686.4	100.1	395.5
Budget Balance	26.0	-42.3	-328.6	-264.6	-361.4	-402.1	-606.8	-651.2	-39.8	-186.3	-242.1	732.7	112.9

Source: Ministry of Finance and Economic Development

Inflation

23. Of concern, is the emerging inflationary pressures and Government is fully seized with this challenge as number one enemy. Year on year inflation recorded 56.7% by January 2019 from 20.9% in October and 5.4% in September 2018, which has eroded incomes. (See Figure 2)

24. Therefore, in our quest for fighting inflation, Government has further strengthened efforts on implementation of fiscal consolidation measures targeting narrowing the fiscal deficit and slowing down money supply growth starting in October 2018. (See Figure 2)

25. This has seen month-on-month inflation, which despite shooting to 16% in October 2018, slowing down to 9.2% and 9% in November and December 2018, respectively.

26. The month on month inflation gain in January 2019 is a temporary phenomenon arising from the shock from fuel prices and is expected to ease from February.

Figure 2: Inflation Developments

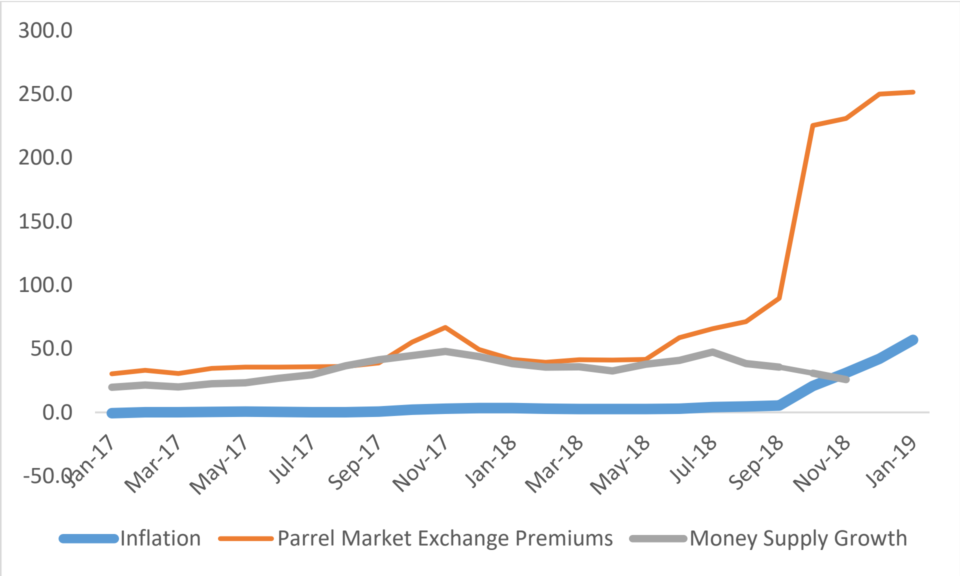
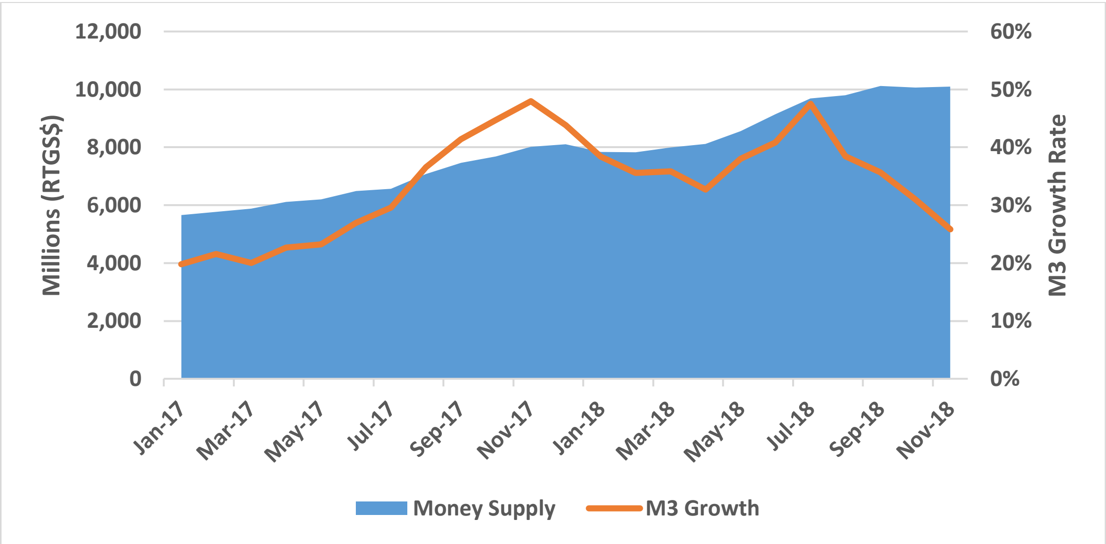


Figure 3: Money Supply



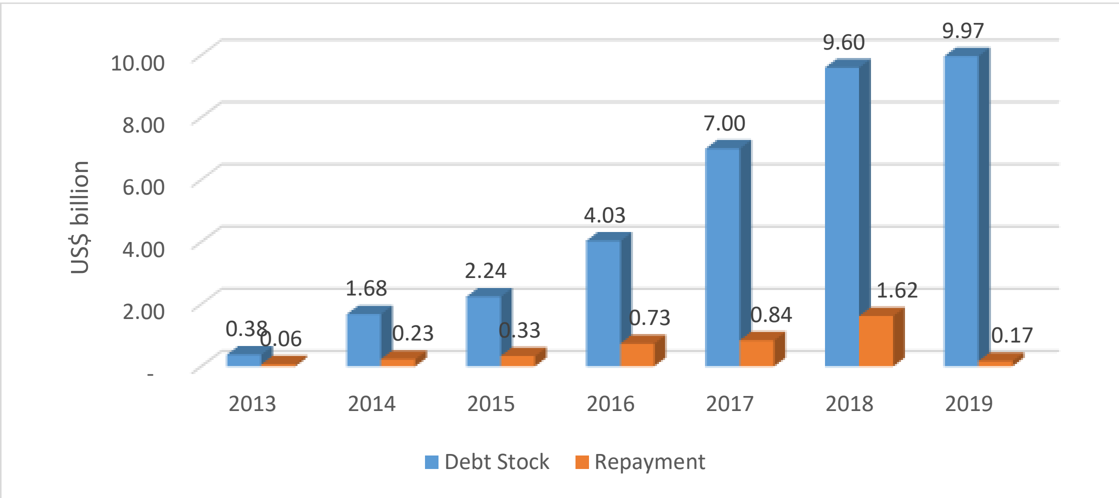
Source: RBZ

27. Overall in 2019, inflation is expected to slow down to single digit benefitting from the fiscal consolidation measures and containment of money supply growth projected at below 10% by year end.

Domestic Debt

28. In the area of public debt management, Government is pursuing a two-pronged approach entailing re-engagement with external creditors for purposes of resolving the external debt overhang including arrears clearance, and on the other hand, containing the domestic debt to sustainable levels.

29. In 2018 alone, payments on the relinquishing domestic debt amounted to US$1.62 billion. Further to this, payments towards domestic debt during the first two months of 2019 amount to US$195 million.



Monetary Sector and Currency Reforms

30. Following the pronouncement of the 2019 National Budget on 22 November 2018, the Reserve Bank has come up with a Monetary Policy Statement presented on 20 February 2019 in line with the Section 46 of the Reserve Bank of Zimbabwe Act [22:15].

31. The Monetary Policy seeks to consolidate the monetary measures announced in October 2018 which introduced separate FCA accounts and RTGS accounts which set the tone for the implementation of currency reforms.

32. In particular, the Monetary Policy seeks to remove the various distortions which prevented efficient functioning of the foreign exchange market, with distortions on the rest of the economy.

33. Such distortions also fed into multiple pricing of goods and services (denominated in RTGS transfers, mobile wallet transfers, bond notes and US dollar cash pricing).

34. In addition, the distortions promoted the parallel market to thrive leading to run away exchange rate premiums of as high as US$1:4 bond note and even higher in some cases, which in turn pushed up prices beyond the reach of the majority.

35. The New Monetary Policy, therefore, sets a robust market based framework for determination of the exchange rate, that way, facilitating financial sector stability, containment of inflationary pressures and building of confidence.

New Monetary Policy Measures

36. The Policy liberalises the country's foreign currency market, and discards the fixed 1:1 exchange rate peg between the US$ and the Bond note, which was at the centre of various foreign exchange price distortions.

37. It specifically introduces a new currency called the RTGS dollar, which includes electronic balances in banks and mobile platforms, bond notes and coins. The RTGS dollar, therefore, becomes a new reference currency for the purposes of pricing of goods & services and accounting.

38. Under the same arrangement, the FCA Nostro accounts introduced in October 2018 are ring-fenced and secured.

39. In order to facilitate trading on a willing buyer, willing seller basis, the Policy established an Inter-Bank Foreign Currency Market, which comprises banks and bureaux de change that way, providing a broad based formal platform for efficient foreign currency trading within the economy.

40. Implementation of the new Monetary Policy is already underway giving rise to a new reference exchange rate of US$1:2.5 RTGS dollar. This implies maintenance of prevailing prices with scope for price reductions in view of prices having previously been based on parallel market exchange rates of around US$1:4 bond notes. The ruling interbank exchange rate applies to all foreign exchange trading including retentions.

41. Meanwhile, the RBZ is strengthening the above arrangement by focusing on containing money supply growth which also supports the fiscal measures contained in the 2019 Budget on macro-fiscal stabilisation including inflation containment, as well as ensuring market discipline.

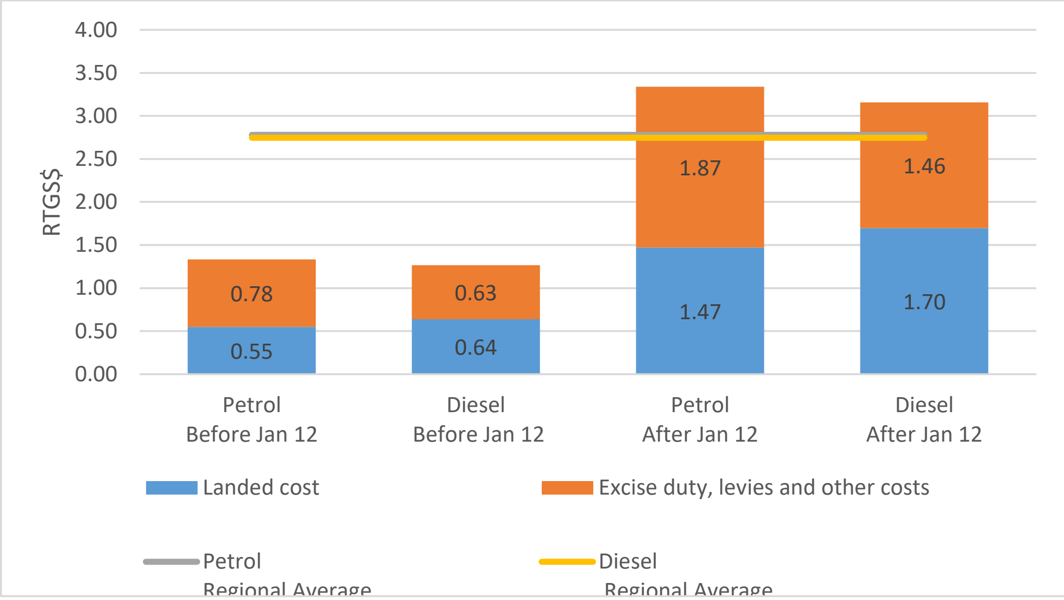
42. In terms of assessing the impact of the new monetary policy, the Central Bank has put in place sufficient monitoring mechanisms which will ensure that the interbank foreign exchange market is not manipulated.

43. Banks will be allocating 70% of forex towards productive purposes with priority being given to net exporters of raw materials, non-exporting importers of raw materials and machinery for local production and to the importation of critical raw materials. The remaining 30% would go towards capital remittances from disposal of local property and for cross border investments, funding of offshore credit cards and for the importation of trinkets.

Fuel Subsidy

44. Government effectively removed the subsidy on fuel on the 12th of January 2019 by means of an increase in the excise duty for fuel from an average US$1.33 per litre to around US$3.33, in order remove arbitrage opportunities which had emerged in the sector. These distortions were promoting illicit fuel exports to neighbouring countries and wasteful tendencies on the part of our motorists.

Figure 4: Fuel Price Structure (assumed market rates of US$1:RTGS$2.50)



45. Ultimately, the excise duty will filter into the exchange rate framework

State Owned Enterprises and Parastatals Reforms

46. Reforms on State Owned Enterprises and Parastatals (SOEs) are being accelerated as outlined in the 2019 National Budget. Having approved the implementation framework for 43 SOEs and parastatals in 2018, Government has targeted 5 public enterprises, namely Tel-One/Net-One/Telecel, ZIMPOST and POSB for immediate reforms and work is already underway to identify transaction

advisors. Projections are that Government will realise at least US$350 million from this initial process.

47. In addition, turnaround strategies for at least 20 Public Enterprises are being supported by various development partners.

48. The SOEs reform process will, therefore, ensure that parastatals, and their restructuring, are fully accountable, transparent, efficient, effective, and viable, complementing Government efforts in promoting economic growth and improved service delivery to the general public.

Grain Marketing Board

49. Furthermore, Cabinet on 5 February 2019 approved the unbundling of the Grain Marketing Board into Strategic Grain Reserve Unit and Commercial Entity. The SGR Unit focuses on purchase of the strategic grain requirement amounting to 500 000 tons, while the Commercial Entity and other private players will manage the rest of the grain purchase at market based prices.

Allied Timbers

50. Another parastatal identified for immediate reforms is Allied Timbers, whose operations are being constrained by the lack of capital

51. Government has approved the identification and engagement of a strategic partner as part of the partial privatisation process for Allied Timbers, including identification of a suitable transaction advisor to assist in the engagement of the strategic partner.

ZESA

52. Government has, with immediate effect, approved the re-bundling of ZESA and to merge all the 5 separate units into a single integrated company with one board. The restructuring will make ZESA more viable, boost its power generation capacity and enhance the expansion of the local power supply network. This process will include the amendment of the Electricity Act in order to cater for the proposed changes in the structure of ZESA.

Lotteries and Gaming Board

53. Government has reviewed its decision of converting the Lotteries and Gaming Commission into a department under the Ministry of Home Affairs and Cultural Heritage.

54. This is to allow the Board to continue to operate as a separate entity administering the Lotteries and Gamming Act and providing complementary support to the fiscus towards social services and national disasters.

National Competitiveness Commission

55. Government has also reconsidered its decision of April 2018 to convert the National Competitiveness Commission into a Department under the Ministry of Industry and Commerce.

56. In this regard, the National Competitiveness Commission will continue to operate as an autonomous entity that is premised on private sector involvement.

Ease of Doing Business Reforms

57. Government is accelerating and deepening the ease and cost of doing business reforms to improve competitiveness and establish a One-Stop Shop Investment Centre.

58. While an Interim Inter-Ministerial Committee to provide One-Stop Shop investment services is now fully operational, legislation (ZIDA Bill) to underpin the establishment and operations of a specific and dedicated institution - Zimbabwe Investment and Development Agency (ZIDA) is now before Parliament. The respective Bill also seeks to provide assurance to investors about the country's commitment to property rights.

59. The fully-fledged ZIDA will complete the processing of investment approvals within a day and is set to be fully operational within the second quarter of 2019.

60. This is bound to significantly improve the investment climate in the country, and thereby stimulate economic development in line with the goals in Vision 2030.

Institutional and Political Reforms

Repealing of POSA and AIPPA

61. Government continue to align the outstanding laws to the Constitution with Cabinet having approved the principles of the proposed Maintenance of Peace and Order Bill on 19 February 2019, which will repeal the Public Order and Security Act (POSA).

62. In addition, Cabinet has approved principles of 3 Bills, which will repeal the Access to Information and Protection of Privacy Act (AIPPA) (Chapter 10:27). These are the Protection of Personal Information Bill and the Freedom of Information Bill approved on 19 February and the Zimbabwe Media Commission Bill approved on 13 February 2019.

63. The repeal of POSA and AIPPA paves way for the opening up of the democratic space and the enjoyment of freedoms and rights.

Cyber Protection, Data Protection, and Electronic Transactions Bill

64. Principles of the Cyber Protection, Data Protection, and Electronic Transactions Bill were approved by Cabinet on 19 December 2018. The Bill is meant to provide comprehensive guidelines on cybercrimes, use of electronic data and transactions, among others.

Citizens Law

65. On 26 February 2019, Cabinet approved proposed changes to the citizenship laws to pave way for the granting of dual citizenship to people born in Zimbabwe.

66. The above Bills are meant to align laws to the Constitution and are expected to go through Parliament within the first half of the year.

Police Act

67. In February 2019, the Police Act amendments became effective and finally being in line with the Constitution. This will see the country's Police Force - the Zimbabwe Republic Police (ZRP) being rebranded to the Zimbabwe Police Service (ZPS) as a professional Police responsible to the needs of the society.

Governance Commissions

68. The 2019 Budget has allocated US$44.8 million to institutions mandated to promoting good governance targeting capacitation of those Constitutional institutions mandated to promote democratic principles. These include the:

- Zimbabwe Electoral Commission;
- Zimbabwe Gender Commission;
- Zimbabwe Human Rights Commission;
- Zimbabwe Judiciary Service Commission; and
- National Peace and Reconciliation Commission, among others.

Political Dialogue

69. Government has reaffirmed its commitment to peace and dialogue, and maintaining an open-door policy to resolve challenges facing the country. The objective is to remove deficit of trust, restore public confidence, forge a renewed sense of shared national vision and social cohesion and advance an economy that works for everyone.

70. Consequently, a National Political Dialogue was launched on February, 6 2019, bringing together at least 21 leaders of different political parties to confront the national socio-political and economic challenges. The dialogue is also in line with the pledge made by the President during his inauguration last year.

71. Going forward, the parties have established Thematic Committees to look into different issues of interest for deliberations during the planned Dialogue meetings. The interest epitomised by frank discussions so far point to a purposeful start of a journey of working together as Zimbabweans, with outsiders expected to come on board to support the process.

CONCLUSION

72. Government is committed to fully implement all reforms incorporated in the 2019 National Budget as outlined in the TSP (Reform Programme) including re-engagement with the international community.

73. It is, therefore, paramount that we operationalise the Staff Monitored Programme (SMP) with the IMF which is being re-parameterised in terms of the new macro-economic conditions.

Minister of Finance and Economic Development

27 February 2019