1. OVERVIEW

The Minister of Finance & Economic Development "MoFED" on 8 December 2016 presented the country's 2017 National Budget, running under the theme "*Pushing Production Frontiers across All Sectors of the Economy*". The Government expects economic growth to reach 1.7% in 2017, up from the revised projection of 0.6% in 2016, underpinned by a recovery in agriculture – on anticipated normal to above normal rainfall patterns, rebound in the electricity sub-sector and benefits from the ease of doing business reforms. **Table 1** below highlights the actual and projected sectoral growth rates from 2009 to 2017.

TABLE 1: SECTORAL GROWTH

	2009 Actual	2010 Actual	2011 Actual	2012 Actual	2013 Actual	2014 Actual	2015 Estimate	2016 Initial	2016 Rev Proj	2017 Proj
Agriculture, hunting & fishing	21.0	33.9	7.4	7.8	(2.6)	23.0	(4.7)	(9.9)	(3.7)	12.0
Mining & quarrying	33.3	47.0	25.8	8.0	11.7	(3.4)	0.4	14.0	6.9	0.9
Manufacturing	10.0	2.7	3.5	5.3	(0.6)	(5.1)	0.2	0.5	0.3	0.1
Electricity & water	1.9	1.5	12.4	0.3	5.0	5.4	(5.5)	(21.8)	(19.0)	2.5
Construction	2.1	1.5	1.0	23.5	3.9	6.9	4.0	4.5	3.5	(2.0)
Finance & Insurance	4.5	0.5	24.0	28.0	11.3	7.7	4.6	6.4	2.0	(1.0)
Real estate	2.0	0.9	1.0	5.9	0.7	4.7	3.5	3.4	2.0	-
Distribution, hotels & restaurants	6.5	0.5	10.3	4.3	3.9	2.5	3.7	2.4	1.7	0.8
Transport & communication	2.2	0.1	5.5	6.7	7.0	1.1	1.9	3.0	1.5	(1.1)
Public adminstration	n/a	n/a	n/a	19.1	3.4	6.3	1.2	-	(5.0)	(0.6)
Education	n/a	n/a	n/a	38.1	2.9	3.9	4.2	2.6	2.6	0.8
Health	n/a	n/a	n/a	7.7	0.5	1.8	(0.7)	0.4	0.4	0.1
Domestic services	n/a	n/a	n/a	(3.5)	6.0	2.2	2.0	1.0	1.0	1.5
Other services	n/a	n/a	n/a	(10.7)	(4.7)	(3.3)	3.0	3.0	3.0	3.0
GDP at market prices	**5.4**	**8.1**	**9.3**	**10.6**	**4.5**	**3.8**	**1.1**	**1.4**	**0.6**	**1.7**

Source: MoFED

2. RE- ENGAGEMENT UPDATE

The Government commendably made the first, albeit small, step in clearing the arrears to the international community by paying off the US$107.9 million that was owed to the International Monetary Fund "IMF". It remains imperative for the Government to expedite the mobilisation of funds for the African Development Bank (US$610 million), the World Bank (US$1.16 billion), the European Investment Bank (US$212 million) and other multilateral as well as bilateral official creditors, as the arrears clearance strategy remains central to any impactful reform program.

3. THE 2017 BUDGET FRAMEWORK: NEED FOR FISCAL DISCIPLINE…

Table 2 below outlines the revenue and expenditure outturn for 2016 and projections for 2017.

TABLE 2: REVENUE AND EXPENDITURE OUTTURN

CATEGORY	OUTCOME & PROJECTION	COMMENTS
Revenue	• Cumulative revenues as at October 2016 stood at US$2.88 billion, against a target of US$3.16 billion. • The 2016 revenue target was further revised downwards to US$3.52 billion, from an initial US$3.85 billion. • In 2017, revenue is expected to reach US$3.7 billion.	The Government expects revenues to increase on the back of improved transparency and compliance and the broadening of the tax base. *However, downside risks to the projected revenue collections remain largely elevated, characterised with increasing unpredictability of revenue collections especially when the economy continues to informalise. As such, the Government would need to expedite the implementation of policies that boost the productive and revenue bases.*
Expenditure	• Cumulative expenditures as at October 2016 amounted to US$3.84 billion, higher than the targeted US$3.32 billion. • The projected expenditure for 2016 was revised upwards to US$4.59 billion, compared to initial target of US$4 billion, with main expenditure drivers being grain importation and wage costs. • In 2017, the Government is targeting expenditure of US$4.1 billion (See section 4 for Vote Appropriations).	The expenditure overruns, especially on the back of grain imports were largely unavoidable in view of the drought that was experienced in the previous farming season. *Thus, in addition to containing the expenditure bill, through among others measures, reform of the public service and parastatals, the Government also needs to continue to realign its expenditure towards developmental projects. Additionally, it also remains critical for the Government to expedite measures to create an enabling environment for private sector led growth.*
Budget Deficit	• A budget deficit of US$1.04 billion is expected for 2016, against an initial target of US$150 million. • In 2017, the Government expects to reduce the budget deficit of US$400 million, being -2.8% of GDP.	*The country is evidently facing the "twin deficits", i.e. budget and current account. It is therefore, critical for the Government to buttress ongoing measures to switch expenditure and consumption, return to cash budgeting and enhanced fiscal discipline, with policies that support the domestic production and export base. It is evident that the Government would need to step up its expenditure management in 2017 in order to attain the targeted budget deficit.*

4. VOTE APPROPRIATIONS - LIMITED CAPITAL ALLOCATIONS…

As highlighted in Appendix 1, the top 5 sectors by expenditure allocation were Primary & Secondary Education, Home Affairs, Defence, Agriculture and Health. These collectively accounted for 60.8% of the total allocation of US$3.43 billion for 2017. However, funding to other key sectors such as Industry & Commerce, Mining and Energy remained under 1%. It is not clear how the anticipated savings from the public sector reforms of US$140 million will be utilised. However, it remains imperative for the Government to avoid thinly spreading resources, maximise on the available resources, increase developmental projects, and aim to abide by international budgetary declarations such as the Maputo Declaration on Agriculture, Abuja Declaration on Health, etc. Meanwhile, **Table 3** below outlines the budget framework from 2009 to 2017

TABLE 3: MACRO-ECONOMIC FRAMEWORK

	2009	2010	2011	2012	2013	2014	2015	2016	2017
Real GDP Growth (%)	5.4	8.1	9.3	10.6	4.5	3.8	1.1	0.6	1.7
Nominal GDP @ market prices (US$mln)	5,899	8,290	10,068	12,472	13,490	14,197	14,059	14,165	14,525
Inflation (Annual Average) %	-7.7	3.0	4.1	3.7	1.6	-0.20	-2.4	-1.5	1.1
Government Accounts									
Revenues & Grants (US$mln)	974	2,339	3,020	3,496	3,741	3,770	3,737	3,521	3,700
% of GDP	16.5%	28.2%	30.0%	28.0%	27.7%	26.6%	26.6%	24.9%	25.5%
Expenditures & Net Lending (US$mln)	966	2,228	3,181	3,656	4,075	3,912	4,120	4,593	4,100
% of GDP	16.4%	26.9%	31.6%	29.3%	30.2%	27.6%	29.3%	32.4%	28.2%
Recurrent Expenditures	920	1,634	2,629	3,301	3,592	3,565	3,583	3,762	3,630
% of GDP	15.6%	19.7%	26.1%	26.5%	26.6%	25.1%	25.5%	26.6%	25.0%
Employment costs	n/a	n/a	n/a	2,134	2,344	2,583	2,575	3,138	3,000
% of GDP	n/a	n/a	n/a	17.1%	17.4%	18.2%	18.3%	22.2%	20.7%
Capital Expenditure & Net Lending	46	594	552	355	483	310	536.8	831.5	520
% of GDP	0.8%	7.2%	5.5%	2.8%	3.6%	2.2%	3.8%	5.9%	3.6%
Budget Balance - US$mln	8.40	111.10	(160.60)	(160.00)	(334.00)	(142.0)	(382.6)	(1,042.0)	(400.0)
% of GDP	0.1%	1.3%	-1.6%	-1.3%	-2.5%	-1.0%	-2.7%	-7.4%	-2.8%

Source: MoF, RBZ, ZimStat (*n/a- not available*)

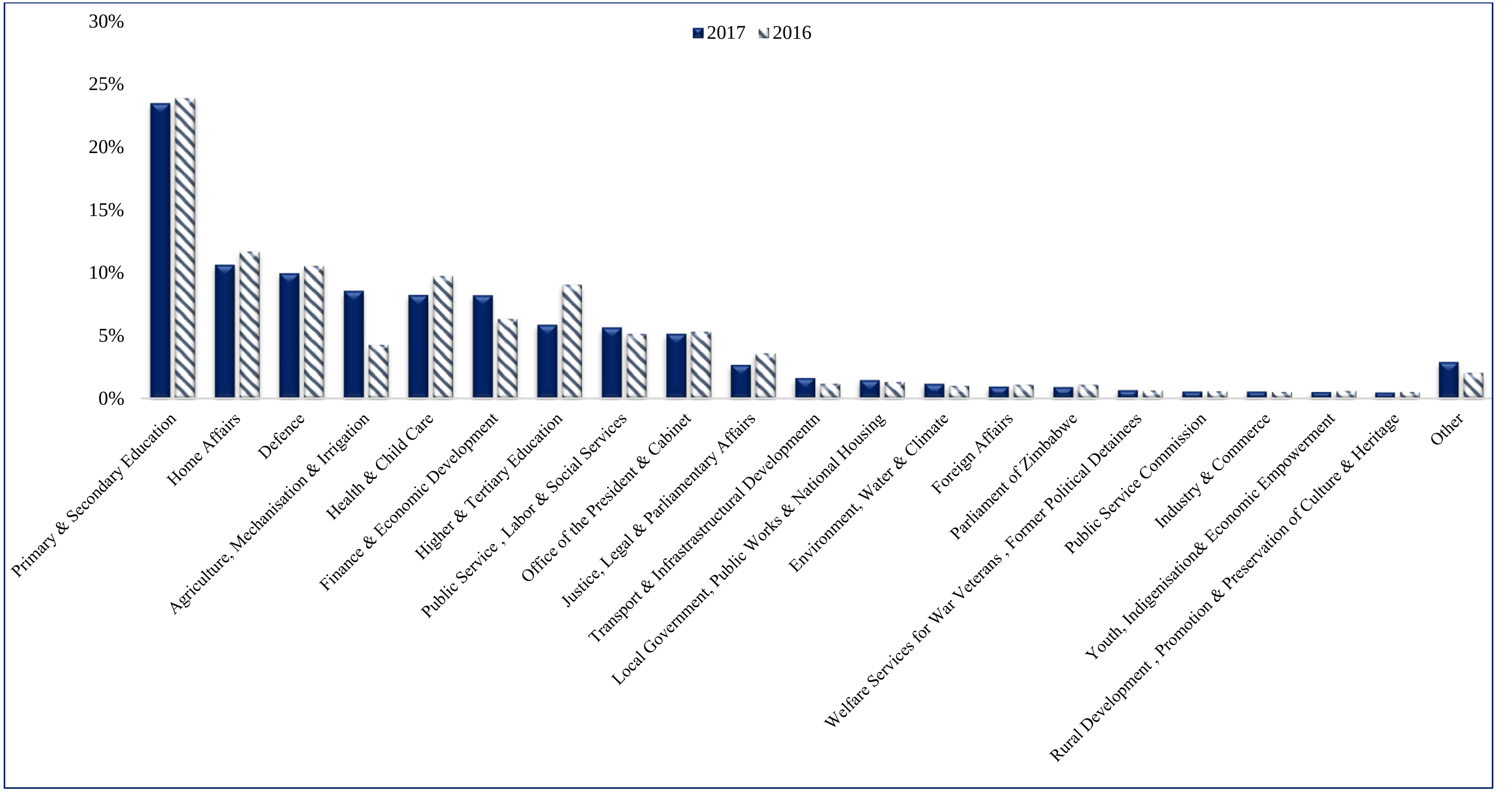
5. POLICY MEASURES - FOCUS ON LOCAL INDUSTRY REVIVAL…

FOCUS AREA	POLICY MEASURES	COMMENTS
Support to Industry - effective 1 January 2017	☞ Removal from Open General Import Licence of the following; • Flour • School uniforms • Luggage ware including bags and suitcases. ☞ Manufacturers rebate on the importation of; • Raw materials including fatty acids, palm stearine and palm kernel oil for soap industry; • Duty-free importation of raw materials for sanitary ware. • Additional raw materials on selected fabrics, • Increase more raw materials used in the printing and packaging industry. ☞ Review the ring-fenced milk powder requirements for the year 2017 to support dairy producers. ☞ Suspend excise duty on importation of 30,000 litres of raw wine under a ring-fenced facility for approved manufacturers for 1 year beginning 01 January 2017. ☞ Ring-fence importation of 30 luxury buses at a reduced rate of 5% for the twelve months beginning 1 January 2017. Beneficiaries limited to importation of 2 units. ☞ Supply of pipeline transportation, storage and handling services of purposes of delivery of fuel to be zero-rated. ☞ Deferment of export-tax on un-beneficiated platinum moved from 1 January 2017 to 1 January 2018.	• These short term interventions need to be buttressed with long term measures that promote the creation of a stable productive base for the economy, access to right priced long-term finance, investment in new machinery, etc.
Revenue enhancing measures - effective 1 January 2017	☞ Authorise existing suppliers of fiscalised devices to procure advanced fiscal devices as well as licence additional players. ☞ Non-compliant operators with devices not connected to Zimra server will not be issued with Tax Clearance Certificates. ☞ Standard rating of rice, margarine, cereals, maheu, pork, beef, fish, chicken, potatoes, meat products, rice, margarine and potatoes. ☞ Excise duty on paraffin at a rate of USc40 per litre. ☞ Introduce a health fund levy of USc5 for every dollar of airtime and mobile data. ☞ Increase the standard scale of fines to reduce carnage on the roads.	Again, these need to be supported by more sustainable revenue enhancing measures.

FOCUS AREA	POLICY MEASURES	COMMENTS
	☞ Amend definition of specified assets for capital gains tax to include income accruing from the disposal of prescribed property of any description, whether tangible or intangible, including whatever nature of rights to such property such as; • Mines And Minerals Acts • The Patents Act • Trade Marks Act • Industrial Designs Act • Copyright and Neighbouring Rights, • Brands Ac, etc ☞ Amend income tax legislation inorder to extend the limit on tax deductible expenditure to apply to transactions between associated companies and introduce definition of "permanent establishment, board fees to non-executive directors from non-residents tax on fees. ☞ Exclude deemed dividends arising from disallowed interest expenses from the income tax exemption.	
Tax Relief Measures - effective 1 January 2017	☞ Introduction of tax incentives for companies operating in Special Economic Zones "SEZ" including corporate tax exemption for the first 5 years, exemption of non-residence tax on fees on services not locally available, non-resident tax on dividends, duty free importation of capital equipment, raw materials and intermediate products. ☞ Exemption of housing units to any local authority, employee share ownership scheme or community development trust from Capital Gains Tax. ☞ Support measures for SMEs through downward revision of presumptive taxes, facilitation of tax registration, ring-fencing resources to capitalise the Small and Medium Enterprises Development Corporation ☞ Exempt banking and payment solutions offer by any person registered under the National Payments Systems Act from VAT.	Introduction of tax incentives for the SEZ is a step in the right direction. Of significance is the need to build an investor friendly environment to attract investment inflows. Additionally, a swift alignment of these incentives on the current SEZ Act is critical.
Efficiency in Tax Administration	☞ Introduce an electronic duty-free certificate on goods for exclusive use by Government. ☞ Enhance regulation of clearing agents in terms of qualifications, tax compliance and associate memberships.	Positive moves meant to increase transparency.

FOCUS AREA	POLICY MEASURES	COMMENTS
	☞ Publishing of penalty-loading model for taxpayers ☞ Reduce the maximum period of permit for the temporary importation of vehicles by visitors and residents living abroad from the current 12 months to 3 months. ☞ Tenure of office for the Commissioner General be fixed to a maximum of two, five year terms.	
Public entities	☞ Freeze of all remuneration and benefits in place with effect from 1 January 2017, pending finalisation of the new Public Sector Remuneration Framework. ☞ Freeze on prices, fees and charges by all public sector entities - effective 1 January 2017 ☞ Public Procurement and Disposal of Public Assets Bill to become law by March 2017.	These measures are expected to enhance fiscal discipline. Additional measures such as parastatals reforms remain critical.

Appendix 1: Expenditure Appropriations



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