1. OVERVIEW

The Minister of Finance & Economic Development on 7 December 2017 presented the 2018 National Budget, in which he outlined the Government's intention to steer the economy towards a new growth trajectory. However, given that most of the proposed measures that are contained in the budget statement are not new, and that there are other countries that have experienced and overcome the same policy challenges as the ones that the Government is trying to resolve – chief among them the loss of fiscal discipline - we have taken "*an outside view*" approach in analysing the 2018 budget statement.

2. BUDGET ANALYSIS

<table>
<tr><th>FOCUS AREA</th><th>KEY ISSUES</th><th>COMMENT</th></tr>
<tr><td>Macro- economic framework</td><td>
<table>
<tr><th></th><th>Average 2009-2014</th><th>2015</th><th>2016</th><th>2017 Est</th><th>2018 Proj</th></tr>
<tr><td>Real GDP at market prices - US$mlns</td><td>10,736</td><td>14,059</td><td>14,165</td><td>14,551</td><td>15,205</td></tr>
<tr><td>Real GDP(%)</td><td>7.0</td><td>1.1</td><td>0.6</td><td>3.7</td><td>4.5</td></tr>
<tr><td>Inflation (%)</td><td>0.8</td><td>-2.4</td><td>-1.5</td><td>1.1</td><td>3.0</td></tr>
</table>
Key Assumption/ Intentions.

Correcting fiscal imbalances and financial sector vulnerabilities.
Public Enterprises & Local Authorities reform.
Improving the unconducive investment environment.
Dealing with corruption in the economy.
Re-engagement with the international community.
Increasing capital development budget.

</td><td>By and large, there has been little change in the key assumptions underpinning the national budget. Given that the same assumptions proved difficult to attain in previous years, leading to weakened fiscal policy, there is a significant downside risk that this could still be the case in 2018. However, it is noticeably clear that the Government appears determined to pursue a different approach to policy implementation, and will likely follow through on some of the proposed measures. As such, we would ideally take a cautiously optimistic view of the macroeconomic framework. Evidently, the Government will face the difficult task of choosing between unpalatable (politically painful) and disastrous (economically unsound) options in implementing the 2018 budget.</td></tr>
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FOCUS AREA	KEY ISSUES	COMMENT
Revenue Measures	(see below)	(see below)
Expenditure Allocation	(see below)	(see below)

Revenue Measures

Key issues

Revenue Trends and Projections

	Average 2009-2014	2015	2016	2017 Est	2018 Proj
Total Tax Revenue & Grants (US$mln)	2,890	3,737	3,521	4,338	5,071
Tax Revenue/ Total Revenue (%)	96.4%	94.9%	91.9%	84.6%	84.8%
Revenue/GDP (%)	26.2%	26.6%	24.9%	29.8%	33.4%

- All revenue heads are expected to exceed 2017 projected outturn.
- The 2018 revenue outturn is anchored on
  - Tax revenue of US$4.3 billion
  - Non-tax revenue of US$237 million
  - Retained revenue of US$434 million
  - Budgetary/ donor support of US$100 million

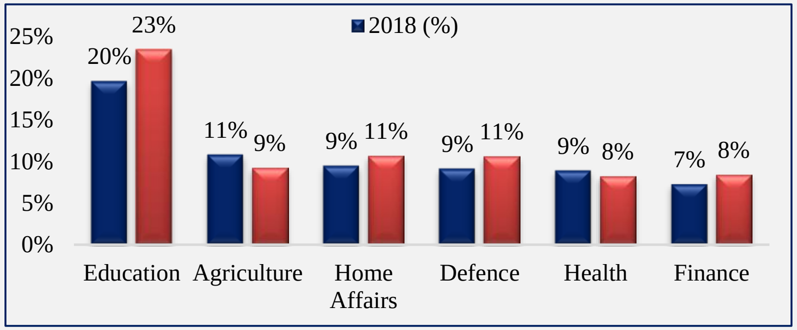
Comment

The starting point for a good budget preparation is a firm revenue forecast. As such, it is hoped that the Government's expected jump in revenue collections from an average of US$3.6b between 2014 and 2016 to US$5.1b in 2018 – which is clearly a stretch target - is grounded on a solid tax base and firm commitments on budgetary support from the donor community. It is the accuracy and predictability of the revenue forecasts, collections and allocations that will help the Government in reducing incidences of budget overruns, incurrence of expenditures outside the budget and flouting of systems – which the Minister outlined as some of the key challenges to a sustainable fiscal position.

Expenditure Allocation

Key issues

Top 6 Vote Appropriations



- Capital expenditure expected to decline from 8% of GDP in 2017 to 6% in 2018.

Comment

The Minister kept with the tradition of appropriating the largest votes to the social ministries – education and health, and the key sector - agriculture. However, given the limited fiscal space, it is evident that recurrent expenditure will continue to dominate Government expenditure in the short to medium term. Therefore, to buttress the expenditure rationalisation proposal that were alluded to by the Minister, the Government, could, among other short term initiatives, ensure there is strict controls and monitoring of expenditure, strengthen the procurement processes, improve efficiency in allocation of resources, ensure that funded programs

<table>
<tr><th>FOCUS AREA</th><th>KEY ISSUES</th><th>COMMENT</th></tr>
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- Creation of fiscal space through;
  a. Freeze on public service vacant posts.
  b. Retirement of staff and introduction of a voluntary retirement scheme.
  c. Rationalisation of 3,739 youth officers (cost saving of US$19.3 mln per annum) and retirement of 528 public service members (severance package of US$8.7mln).
  d. Reduce foreign travel allowance and downsizing diplomatic missions.
  e. Public enterprises reform including privatisation and liquidation.

</td><td>are well prioritised and aligned to fiscal and national goals. In addition, it is also evident that revenue collections will not be adequate to support the development budget. As such, the Government needs to expedite initiatives to attract the necessary budgetary support and create space for developmental expenditure. Furthermore, the Government needs to utilise some of the savings from the expenditure rationalisation to settle private sector debts inorder to free up companies' balance sheets. For the medium to long term, the Government should consider strengthening the public finance management by going beyond the normal budget and adopting tools such as Medium Term Expenditure Framework "MTEF". Admittedly, circumstances could be different, but these are some of the action steps that were successfully taken by Kenya, South Africa, Burundi and Ghana, among others, when they faced unsustainable fiscal positions.</td></tr>
<tr><td>Deficit & Deficit Financing</td><td>
<table>
<tr><th></th><th>Average 2009-2014</th><th>2015</th><th>2016</th><th>2017 Est</th><th>2018 Proj</th></tr>
<tr><td>Budget Deficit - US$mln</td><td>(245)</td><td>(572)</td><td>(1,042)</td><td>(1,707)</td><td>(672)</td></tr>
<tr><td>Budget deficit/ GDP (%)</td><td>-1.8%</td><td>-4.1%</td><td>-7.4%</td><td>-11.7%</td><td>-4.4%</td></tr>
<tr><td>Budget Deficit/ GDP (%) (Regional)</td><td>-6.3%</td><td>-5.9%</td><td>-6.7%</td><td>-5.9%</td><td>-4.8%</td></tr>
</table>

- Lower 2018 budget deficit expected to be driven by higher revenues and expenditure management.
- Budget deficit financing to be attained through;

</td><td>The fact that the targeted reduction in the budget deficit, from US$1.7b in 2017 to US$0.6b in 2018, is coming on the back of a failed attempt to restrain the 2017 budget deficit to the targeted US$0.4b, naturally raises doubts with regards its achievability. However, other countries, e.g. Ghana (2015) successfully reduced their budget deficits on the back of strong political will to cut less</td></tr>
</table>

FOCUS AREA	KEY ISSUES	COMMENT
	○ Issuance of Treasury Bills (to tighten on considerations of new requests) ○ Recourse to the RBZ overdraft (Borrowing to central bank not to exceed 20% of prior years' revenues)	urgent expenditures, enforce fiscal discipline, and attract budgetary support. As such, there is need for follow through and necessary cabinet support to the measures promised in the budget statement. Outside the fiscal context, engaging the diaspora, rebuilding social capital and improving the link between planning and budgeting processes are some of the necessary interventions.
Other Reforms and Measures	○ Amending the Indigenisation and Empowerment Act for the 51:49% rule to be confined to platinum and diamonds. ○ Compensation of land and finalisation of 99-year leases. ○ Re-engagement with the international community (including multilateral financial institutions) and bilateral partners. ○ Support local manufacturers through suspension of duty on critical raw materials and tax exemptions.	These measures are aimed at increasing private sector participation in the economy. It is, therefore, important that the Government expedites the necessary legislative amendments to the pronouncements made through the budget statement and continue to ensure an environment that promotes private sector led growth.

General comment

The 2018 National Budget Statement undoubtedly heralded the Government's strong intention to bring in a new order with regards economic management. Given the timing of the budget statement, and the state of the economy, it is evident that the Government will have to take hard choices inorder to stabilise and steer the economy towards a sustainable growth path. Rebuilding social capital, strengthening procurement legislation, improving expenditure control and monitoring, creating space for private sector investment and reengagement of the international community for budgetary support are some of the immediate initiatives that the Government need to take inorder to stabilise the fiscal position and increase fiscal policy efficacy.

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