A POiNT ANALYSIS OF THE 2019 NATIONAL BUDGET

The Minister of Finance, on 22 November 2018, presented the 2019 National Budget, outlining the Government's intention to promote strong, sustainable and shared growth. The budget statement was presented a few months after the Minister had, through the Transitional Stabilisation Program "TSP" and the Mid Term Fiscal Policy Review "MTFPR", aptly identified and diagnosed the country's currency, debt (occasioned by the twin deficits), and growth (CDG) trap/ crisis as having emanated from an unsustainable fiscal position, and proffered several policy interventions to resolve the crisis. As such, on the least, the 2019 budget was expected to, among other things, carry forward the policy measures pronounced through the MTFPR as well as provide the nuts and bolts for the implementation of the TSP. The Minister was also widely expected to further refine or revise the 2% Intermediated Money Transfer Tax, in order to make it more simple, fair and administratively easy. Whilst the currency issue is generally the preserve of the central bank, the Minister was somewhat expected to at least lay the foundation or outline the roadmap for currency reforms, given their centrality to macroeconomic stability, competitiveness and investment. This analysis, therefore, uses a POiNT approach to assess the 2019 National Budget, specifically focusing on the budget framework, revenue measures, expenditure allocations and financing of the budget deficit.

HIGHLIGHTS & ANALYSIS

FOCUS	BUDGET HIGHLIGHTS	POSITIVES	NEGATIVES	NEW THINKING
Macro framework	<table><tr><th></th><th>2016</th><th>2017e</th><th>2018p</th><th>2019p</th></tr><tr><td>Nominal GDP - $m</td><td>14.1</td><td>22.0</td><td>24.6</td><td>31.6</td></tr><tr><td>Real GDP (%)</td><td>0.6</td><td>3.7</td><td>4.0</td><td>3.1</td></tr><tr><td>Average Inflation - %</td><td>-1.6</td><td>0.9</td><td>8.3</td><td>22.4</td></tr></table>e = estimate; p = projection The budget thrust is centred on food security and social protection, infrastructure development, natural resource management, governance as well as globalisation.	○ The budget consistently observed the need to restore fiscal prudence, address the external sector imbalances and revive economic growth. ○ The budget generally sought to operationalise the provisions made in the TSP, the successful implementation of which would set the country towards a positive	○ Despite using the USD as the reference currency, the budget was silent on the critical issue of currency reforms, which is central to macroeconomic stability, competitiveness and investment. ○ The downward revision of the growth forecast for 2019 to just 3.1%, well below the TSP target of 9.0%, is less inspiring.	○ Multiple pronged approach needed to resolve the currency, debt and growth trap. ○ The country is seemingly gliding towards a dual legal tender setup. There is, therefore, a need to avoid the pitfalls of 2008/9 – wherein the economy spontaneously dollarized - and craft or introduce market-driven macroeconomic policies that

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		growth trajectory in the medium to long term period. ○ The budget showed an improvement in the country's debt metrics, thanks to the rebasing of GDP. ○ The budget statement carried forward the wide range of ongoing and planned infrastructure projects outlined in the TSP, which are essential enablers for economic activity.	○ There are significant downside risks on the macroeconomic assumptions, especially the exchange rate and inflation outturns, which further elevates the risk of stagflation in 2019. ○ No clear plan on debt resolution, which is a key pillar for the unlocking of new funding. ○ Administered exchange rates perpetuate market distortions and reduces the attractiveness of the country as an investment destination.	promote a currency regime that supports economic recovery (through enhancing competitiveness) and at the same time fosters monetary discipline. The country has already partly attained the much needed internal devaluation, which was impossible under full dollarization, and the authorities need to utilise the current opportunity to solidify a realignment of the country's cost base among other critical reforms. ○ Prioritise rebuilding of productive capacity for sectors that have a comparative advantage regionally and/ internationally. ○ Introduce inflation targeting framework for the central bank to anchor market expectations.

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<tr><th>FOCUS</th><th>BUDGET HIGHLIGHTS</th><th>POSITIVES</th><th>NEGATIVES</th><th>NEW THINKING</th></tr>
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<td>Revenue Measures</td>
<td>Revenue Trends and Projections
<table>
<tr><th></th><th>2016</th><th>2017e</th><th>2018p</th><th>2019p</th></tr>
<tr><td>Total Tax Revenue & Grants ($b)</td><td>3.5</td><td>3.9</td><td>5.3</td><td>6.6</td></tr>
<tr><td>Tax Revenue/ Total Revenue (%)</td><td>92</td><td>94</td><td>95</td><td>92</td></tr>
<tr><td>Revenue/ GDP (%)</td><td>25</td><td>18</td><td>22</td><td>20</td></tr>
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Total revenues for 2019 projected at $6.6b, of which:

Tax revenue: $6.0b
Non-tax Revenue $162m
Retentions: $400m

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All revenue heads expected to exceed target in 2018 due to automation and curbing of leakages.
Introduction of payment of duty on selected goods in currency of transaction is an import demand management and expenditure switching policy that is meant to both raise foreign currency for the Government as well as address the perpetual current account imbalances.
Increase in excise duty on inelastic goods, e.g. cigarettes expected to support revenue generation.
Review of tax-free threshold from US$300 to US$350 and widening of tax bands from US$350 to US$20 000 is meant to stabilise demand.
The downward review, from 70% to 45%, of the foreign
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<td>
Inconclusive review/ refinement of the 2% IMT tax on intermediated money transfers, which perpetuates tax uncertainties, multiple taxation and potentially reduces business activity, and ultimately Government revenue.
Increase in excise duty on fuel may have inflationary implications through higher cost of fuel.
Widening of tax bands alone is unlikely to increase consumers' purchasing power, due to the wider adverse impact from currency weaknesses, transactional taxes, e.t.c, hence the high risk of stagflation in 2019.
Lack of tax incentives for businesses likely to deter incremental investment, and thus constrain economic growth.
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Conclude review of the 2% IMT tax and enforce simplicity and administrative easiness.
Foster policy consistency and clarity, e.g. by eliminating contradictory legislative and policy provisions.
Given the limited budgetary space to support industry retooling and mechanisation, consider reviewing the corporate tax rates in a manner that encourages and attracts private sector investment, which will in turn support job creation and result in more income and ultimately revenue for the fiscus.
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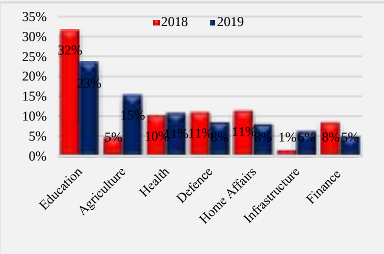
		currency surrender requirements threshold for large-scale gold miners expected to support production. ○ Postponement of export tax on un-beneficiated platinum to 01 Jan 2022 expected to support platinum producers, in view of depressed prices on the international markets.		
Expenditure & Allocations	○ Total expenditures for 2019 projected at $8.16b, of which: ○ Employment Costs $4.1b; ○ Capital Expenditure - $ 2.0b (6.4% GDP) ○ Top 7 Vote Appropriations  ○ Social ministries, as usual, dominated allocations.	○ Pursuance of public sector reforms, e.g. salary cuts, right sizing of the public service, state owned enterprises reforms and foreign missions' rationalisation. ○ Appropriations to the Ministries of Agriculture and Health are in line with regional best practices as specified in the Maputo Declaration (15%) and Abuja Declaration (10%), respectively. ○ The Ministries of Agriculture and Transport & Infrastructure	○ Despite receiving the highest allocations, the Education and Health budgets are dominated by recurrent expenditure, at a time the sectors need more capital investments. ○ Overall budget still dominated by recurrent expenditure. ○ High risk of under-budgeting due to continued pressure on the exchange rate. ○ Could be spreading resources too thinly across many projects,	○ Prioritize capital formation in line with best practise target of 30% of budget. This will positively impact on Public Sector Investment initiatives, which in turn crowds-in the private sector and ultimately results in job creation, income growth and more revenue. ○ Increase capital expenditure allocations for refurbishment of social services facilities.

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<td>budgets commendably inclined towards capital expenditure.
○ Significant number of infrastructure projects, both ongoing and planned, expected to enhance business activity.
○ Budget provided initial funding for devolution.</td>
<td>hence the need to ensure prioritisation.
○ No full legislative framework for devolution and post devolution governance and public financial management yet.
○ Total Government expenditure will be $10.3b after taking into account $2.5b in loan repayments, whose funding is yet to be determined.</td>
<td>○ Improve productivity of funding by linking funding to specific programs and outcomes.
○ Strengthen legislative framework, to effectively prohibit expenditure overruns.
○ Put in place policy measures to facilitate and enhance private sector-led economic growth.
○ Need for legislation that enhances data security for the planned adoption of biometric data for public service workers.</td>
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<td>Deficit & Deficit Financing</td>
<td>○ The budget deficit projected at $1.6b in 2019 (5% of GDP).
○ The table outlines trends in budget deficit since 2016.
<table>
<tr><th></th><th>2016</th><th>2017 Est</th><th>2018 Est</th><th>2019 Prj</th></tr>
<tr><td>Planned Budget Deficit - $b</td><td>(0.2)</td><td>(0.4)</td><td>(0.8)</td><td>(1.6)</td></tr>
<tr><td>Actual Budget Deficit - $b</td><td>(1.2)</td><td>(2.6)</td><td>(2.9)</td><td>-</td></tr>
<tr><td>Budget deficit/ GDP - (%)</td><td>-7%</td><td>-12%</td><td>-12%</td><td>-5%</td></tr>
<tr><td>Budget Deficit/ GDP (%) (SSA)</td><td>-4.6%</td><td>-5.0%</td><td>-4.0%</td><td>-3.9%</td></tr>
</table>
Est = Estimate, prj = projection</td>
<td>○ If properly pursued, the closure of ZAMCO acquisitions of NPLs and quasi-fiscal activities will ease pressure on TB issuances, Government borrowing and domestic debt.
○ Significant reduction in budget deficit to 5.0% of GDP targeted for 2019, supported by move to issue Treasury Bill only for budget deficit financing,</td>
<td>○ The most recent 3 budgets all significantly missed the respective deficit targets. In fact, the deficit for 2018 is already $2.4b, and it is expected to end the year around $2.9b, against the initial target of $0.7b. The 2019 budget does not seem to have put in place the necessary measures to address the root</td>
<td>○ Need to put in place legislative measures that empowers the Ministry of Finance to effectively direct and control public finances and resources.
○ Need to enforce policy proposals such as the announcements that only a formal note from the Accountant General will trigger the issuance of TBs.</td>
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		discontinuation of quasi-fiscal activities, reduction in the RBZ overdraft facility from 20% to 5% of prior years' revenues and discontinuation of takeover of Non-Performing Loans by ZAMCO.	cause of prior years' budget overruns. ○ Without supportive punitive measures, attainment of the 5% limit on RBZ overdraft facility will be extremely difficult, given that the Government consistently missed the prior limit of 20%. ○ The budget did not provide the funding mechanism for loan repayments of c.$2.5b.	

Overall Comment: The budget statement largely sought to operationalise the TSP through, among other interventions, fostering reforms meant to improve fiscal management, enhance performance of state-owned enterprises and address external imbalances. Understandably, the Minister might have deliberately deferred the issue of currency reforms, given that such a move requires sound stabilisation policies, strong foreign currency reserves and solid public trust and confidence, among other key fundamentals. However, the need to resolve the external arrears need not be over-emphasised. Going forward, it is clear that the authorities will face significant internal and external headwinds in pursuing the planned reforms, hence the need for supportive legislation that empowers the Finance Ministry to oversee the planned reforms as well as direct and control public finances and resources. Nevertheless, the economy is likely to remain stuck in a stagflation mode for the greater part of 2019. Assuming that the authorities successfully implement the planned reforms, resolve the arrears and normalise economic diplomacy issues, particularly with the United States, during the year 2019, then the country may begin to witness broad-based economic recovery and growth from mid-2020 onwards.

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