PRE-BUDGET STRATEGY PAPER
2016

Treasury

Harare

October 2015

Contents

I. INTRODUCTION

1. The 2016 Pre-Budget Strategy Paper (BSP) is meant to facilitate stakeholders' participation and debate on budgetary and macro-economic policy issues for the forthcoming 2016 National Budget.

2. The objective is to build consensus on specific issues to be addressed under the Budget.

3. These priority issues are modelled around the following four Zim Asset clusters and two sub-clusters, namely:

- Food Security and Nutrition;
- Value Addition and Beneficiation;
- Social Services and Poverty Eradication;
- Infrastructure and Utilities;
- Fiscal Reform Measures; and
- Public Administration, Governance and Performance Management.

4. Furthermore, in line with the Zim Asset clusters, His Excellency, The President, unveiled a Ten Point Plan, during His State of the Nation Address at the joint seating of the National Assembly and Senate on 25 August 2015.

5. The Plan buttresses and further advances Zim-Asset's objectives of achieving sustainable and inclusive economic growth, in particular the creation of jobs and its key facets are as follows:

- Revitalising agriculture and the agro-processing value chain;
- Advancing Beneficiation and/or Value Addition to our agricultural and mining resource endowment;
- Focusing on infrastructure development, particularly in the key Energy, Water, Transport and ICTs subsectors;
- Unlocking the potential of Small to Medium Enterprises;
- Encouraging Private Sector Investment;
- Restoration and building of confidence and stability in the financial services sector;
- Promoting joint ventures and public private partnerships to boost the role and performance of state owned companies;
- Modernising Labour Laws;
- Pursuing an Anti-Corruption Thrust; and
- Implementation of Special Economic Zones to provide the impetus for foreign direct investment.

6. In addition, debate on the forthcoming National Budget will also draw from the recently announced 2015 Mid-Year Fiscal Policy Review Statement, with the objective carrying forward the unfinished agenda into 2016.

7. In facilitating the debate on the priority issues, the 2016 Pre-Budget Strategy Paper provides an overview of the economy and outlook projections up to 2018, reflecting the economy's potential capacity as well as downside risks.

II. DOMESTIC MACRO-ECONOMIC OVERVIEW & OUTLOOK

GROSS DOMESTIC PRODUCT

8. Overall economic performance in 2015 indicates modest growth particularly in the sectors of tourism, construction and communication, with some setbacks in agriculture and mining.

Real Gross Domestic Product: 2012-2018

	2012	2013	2014	2015	2016	2017	2018
	Act	Act	Est.	Rev Proj.	Prj	Prj	Prj
Agriculture, hunting and fishing	7.8	-2.6	23	-3.6	1.8	3.8	6.1
Mining and quarrying	8	11.7	-3.4	-2.5	1.6	3.1	6.4
Manufacturing	5.3	-0.6	-5.1	1.6	2.1	3.3	2.3
Electricity and water	0.3	5	5.4	-10.8	3.6	1.2	5.2
Construction	23.5	3.9	6.9	7	4.5	6.6	6
Finance and insurance	28	11.3	7.7	6	5	5	4.2
Real estate	59	0.7	4.7	3.9	2.5	5.2	5.2
Distribution, hotels and restaurants	4.3	3.9	2.5	4.7	4	4.3	4.4
Transport and communication	6.7	7	1.1	4.2	2.8	3.2	3.1
Public administration	19.1	3.4	6.3	1.5	1.3	2.1	2.2
Education	38.1	2.9	3.9	2.1	1.3	2.8	2.9
Health	7.7	0.5	1.8	2.1	2.1	3.4	2.8
Domestic services	-3.5	6	2.2	2	1.8	1.9	1.9
Other services	-10.7	-4.7	-3.3	3	2.5	2.6	2.6
Less Imputed bank service charges	9.8	11.3	4.7	3.7	5	4.4	4.7
GDP at market prices	**10.6**	**4.5**	**3.8**	**1.5**	**2.7**	**3.7**	**4.2**

9. Therefore, the initial growth target of 3.2%, will be compromised primarily by the impact of drought on our agriculture sector. A combination of late onset of the rains and its uneven distribution, not only resulted in about 20% of the area under cropping being written-off, but also adversely affected the quality of both cereals such as maize and small grains as well as cash crops, which include tobacco, cotton and soya beans.

10. On the other hand, mining, which, initially exhibited stronger growth in the first quarter of the year, later in the second half of the year, suffered from declining international prices which undermined output particularly for nickel, platinum, chrome, coal, among other minerals.

11. This further emphasizes the importance for the country to keep momentum on beneficiation and value addition in the mining sector.

12. With regards to Industry, the thrust remains on enhancing the sector's competitiveness. It is in this respect that from 2014, Government introduced fiscal interventions meant to support our firms, which consequently brought positive results in a number of subsectors including foodstuffs, textiles and clothing, leather, poultry, dairy, just to name a few.

13. Further efforts to support our industry recovery through a number of measures on financing and improving supply and reliability of

essential utilities such as energy, water, among others should be able to revitalize our industry.

14. Government is also engaging stakeholders with a view of clarifying and resolving misconstructions on issues around indigenization. This, together with progress already made on amending the labour laws, should see improved investment in the country and hence rising capacity utilisation above the current levels of 36%.

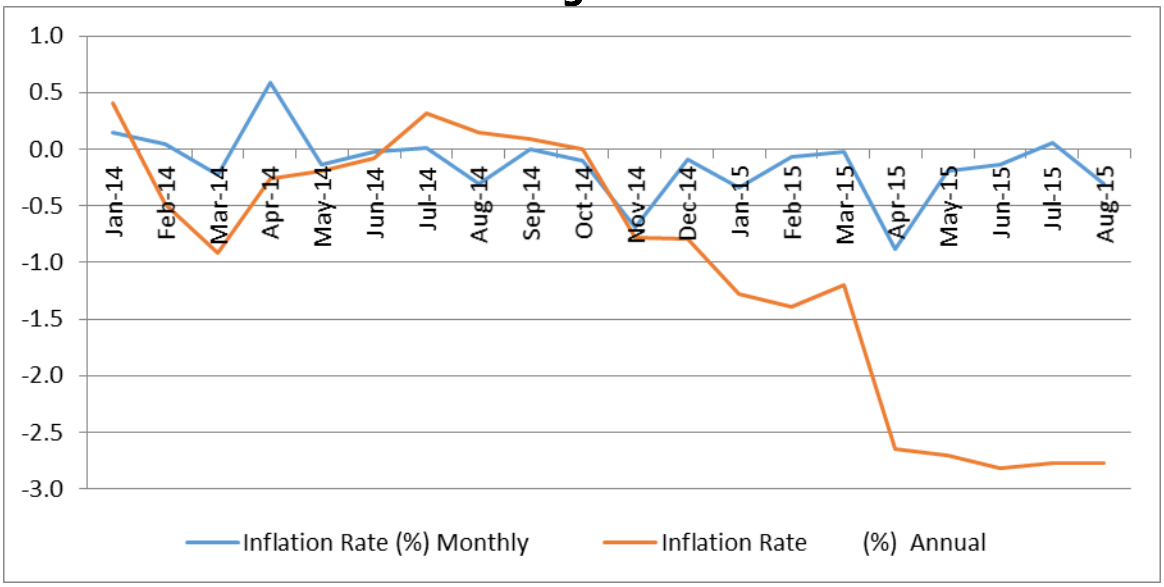
15. Accordingly, in 2016, overall GDP is projected at 2.7% riding on the recovery of agriculture and mining as well as positive performance of the rest of the sectors.

PRICES

16. Annual average inflation remains on a downward trend reflecting the dampening of inflationary pressures, on the back of weakening domestic demand and other external factors such as expectations of continued depreciation of the South Africa rand, coupled with further reductions in oil and world food prices.

17. Major price declines were most pronounced in the categories of food and non-alcoholic beverages; clothing and footwear; housing, water, electricity, gas and other fuels; communication; recreation and culture; restaurants and hotels; and miscellaneous goods and services.

Inflation Profile: Jan 2014-August 2015



18. For the rest of 2015, average inflation is projected at about -2.2%.

19. Indications are that, during 2016 inflation will remain subdued at an average of -1.2%.

20. Major factors that will guide the price developments in the medium term, will be the Rand/US dollar exchange rate, domestic demand, and international commodity prices.

MACROECONOMIC AND BUDGET FRAMEWORK 2012-2018

21. Based on a 2.7% growth in 2016, total revenues of about US$3. 859 billion are anticipated, as indicated under the following Macro-Economic and Budget Framework.

III. MACROECONOMIC AND BUDGET FRAMEWORK 2012-2018

	2012	2013	2014	2015	2016
Real GDP Growth (%)	**10.6**	**4.5**	**3.8**	**1.5**	**2.7**
Nominal GDP at market prices (Million us$)	12 472	13490	14197	14 271	14 684
Inflation (Annual Average) %	3.7	1.6	-0.2	-2.2	-1.2
Government Accounts					
Revenues & Grants (Millions US$)	3 496	3 741	3 770	3 692	3 859
% of GDP	*28.0*	*27.7*	*26.6*	*25.9*	*26.3*
Expenditures & Net Lending (million US$)	3 656	4 075	4 033	3 934	4 087
% of GDP	*29.3*	*30.2*	*28.4*	*27.6*	*27.8*
Current Expenditures	3 301	3 592	3 663	3 610	3 712
% of GDP	26.5	26.6	25.8	25.3	25.3
Employment Costs	2 134	2 344	2 583	2 678	2677
% of GDP	*20.1*	*20.5*	*21.4*	*21.9*	*21.2*
Capital Expenditure & Net lending	355	483	370	324	375
% of GDP	*2.8*	*3.6*	*2.6*	*2.3*	*2.6*
Balance of Payments Accounts					
Exports f.o.b (million US$)	3 808	3 694	3 549	3 291	3 260
Imports f.o.b (million US$)	6 710	6 809	6 306	6 030	6 153
Current Account Balance (million US$)	-3 062	-3 222	-2 609	-2 465	-2 576

Macro-economic Framework Assumptions: 2012-18

22. The above Macro-Economic and Budget Framework is premised on the following broad assumptions:

- A stable macro-economic environment, with low inflation averaging -1.2%;
- Embracing consistent and credible policies, which build confidence and attract investment to key productive sectors;
- Strong global economic growth of around 3.8% in 2016;

- Normal to below normal rainfall season;
- Subdued international mineral commodity prices, implying low earnings from mineral exports and reduced viability for our mining houses;
- Low international oil prices implying reduced input cost on the part of our industry;
- Moderate improvement in liquidity as well as availability of affordable financing; and
- Positive development from the reengagement process.

23. As reflected in the above Framework, fiscal space remains narrow implying reliance on other private sources for financing of various planned development projects and programmes.

24. Other downside risks requiring mitigation in order to attain our objectives and targets include the following:

- Potential economic slowdown particularly in emerging market economies such as China;
- Negative impact from climate change leading to even severe droughts;
- Subdued international commodity prices;
- Potential rise in interest rates in developed markets

25. Taking cognisance of the above realities and risks, below are some proposed priority areas and issues for the forthcoming 2016 Budget.

IV. PRIORITY AREAS: 2016 AND BEYOND

26. The 2016 Pre-Budget Strategy Paper has identified the following priority issues under the respective sectors:

AGRICULTURE AND FOOD SECURITY

27. Agriculture is a key sector for alleviating poverty and supporting other sectors in the value chain. It also plays a vital role in providing employment and incomes to more than 70% of our population, particularly those in the rural areas.

28. In order to sustain the critical role of the sector, Government will pay more attention to adequate funding, mitigating the negative impact of climate change, particularly through droughts as well as enhancing productivity and marketing of the agricultural produce.

29. In 2015/16, particular attention will be on the following:

Financing

30. The high magnitude of resources required to finance agriculture calls for the participation of all players - Government, banking sector, contractors, farmers as well as development partners to support each

other in order to ensure adequate and sustainable financing of this important sector.

31. As already indicated in the 2015 Mid - Year Fiscal Policy Review, the forthcoming 2015/16 agricultural programme targets a total of 2.1 million hectares for grain crops, of which 1.7 million hectares is for maize and about 485 000 hectares for small grains.

32. This programme requires estimated total financing of about US$1.7 billion, of which US$1.3 billion is for crop production.

33. Government intervention, in line with its capacity, will primarily focus on supporting vulnerable household farmers through an input pack scheme, targeting about 300 000 vulnerable households.

34. Furthermore, Government will expedite clearance of arrears to both input suppliers and farmers for their inputs supply and grain deliveries respectively, as part of capacitating them in preparation for the oncoming season.

35. In addition, the banking sector is expected to play a bigger role in financing agriculture, given the consensus over tight loan repayment mechanisms and the lowering of lending rates to a maximum of 18%, in line with the 2015 Mid-Year Monetary Policy Statement.

36. Already, the banking sector has mobilised about US$1 billion in support of the upcoming season and this will also be complemented by support from development partners.

Inputs Supply

37. Local companies have indicated adequate capacity to fully supply the required seed and compound fertilisers for the forthcoming agricultural season. The anticipated deficit of about 50 000 tons of ammonium nitrate fertilisers will be imported and already Government has extended duty free importation.

38. Similarly, recent announcements on the reduction in fertiliser prices is a commendable development as it will enhance the productivity and viability of farmers.

Climate Change

39. The implications of climate change are being severely felt across the world and this is having far reaching consequences, particularly on agriculture through droughts and floods.

40. Accordingly, this requires that mitigatory measures be embraced and strengthened in order to limit the adverse impact.

41. With regards to the 2015/16 rainfall season, forecast from the SADC weather experts are predicting a normal to below normal rainfall season for the region.

42. Therefore, planting of early maturity varieties as well as ensuring early accessibility to inputs will be important.

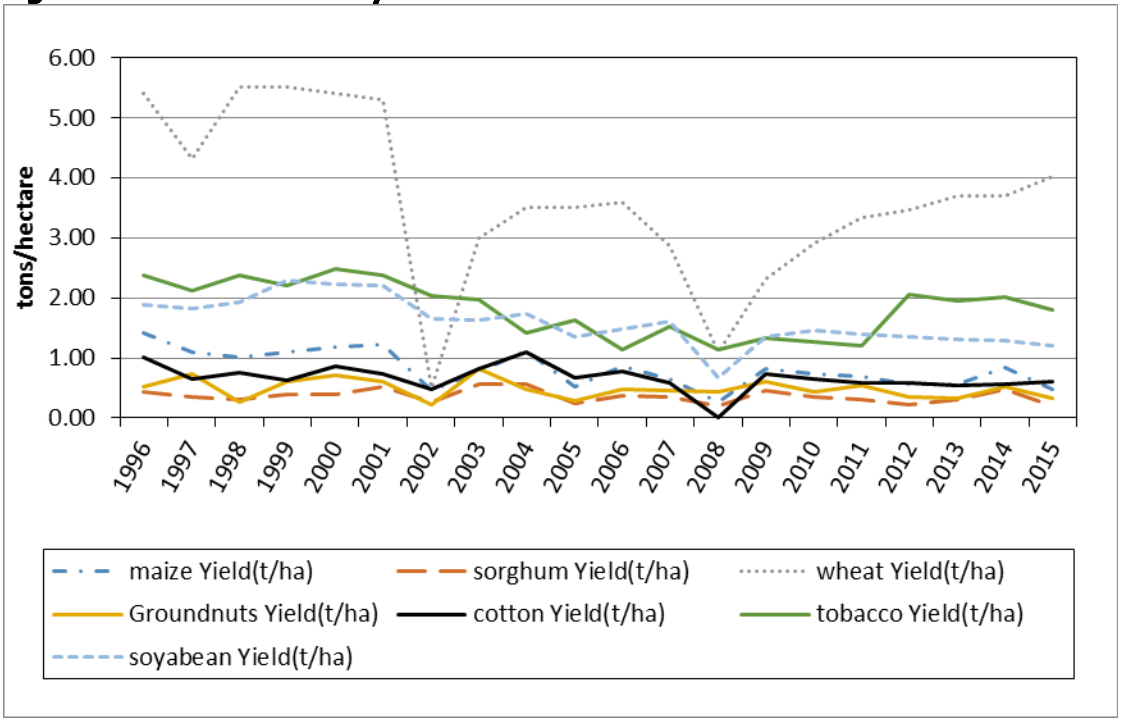
43. Furthermore, structured investment in the rehabilitation and development of irrigation systems to combat the effect of recurrent droughts should be prioritised.

44. This not only limits the exposure of farmers to dependence on erratic rainfall patterns, but also enhances productivity.

Productivity

45. Our current productivity, as reflected through low yields in crops such as cotton, maize, soya, wheat, among others, is grossly compromising farmer viability and competitiveness.

Agriculture Productivity



Source: Ministry of Agriculture

46. The low productivity levels is on account of many factors ranging from financing, input availability and the requisite skills and expertise as well as the level of mechanisation, among other factors.

47. In this regard, enhancing productivity should be a priority for sustainable agricultural production in the country and this should be our thrust in the current season.

Marketing

48. Lack of access to markets deprives farmers of competitive prices and hence appropriate proceeds from their produce.

49. In this regard, a competitive marketing arrangement such as the proposed operationalization of the Agricultural Commodity Exchange and the Warehousing Receipt System complemented by an ICT based marketing system should be expedited.

50. Furthermore, Government should also ensure a level playing field by closely monitoring the influx of imported agricultural products such as horticultural products. The objective is to promote local production and local farmer viability.

Livestock Development

51. Our livestock population remains well below potential and levels of 1996, depriving the country in terms of nutrition, incomes and exports.

	1996	**2015**
Cattle herd	6.28 million	5.3 million
Dairy Herd	127 000	28 000
Sheep	671 000	456 627
Goats	5.05 million	4.05 million

Source: Ministry of Agriculture, Mechanisation and Irrigation Development

52. As indicated in the 2015 Mid- Year Fiscal Policy Review Statement, Government should continue establishing national breeding and multiplication centres in different ecological zones of the country for different livestock species.

MINING

53. Despite the prolonged impact of declining international prices, mining continues to hold much potential for the recovery of our economy.

54. In 2015, the sector exhibited moderate growth primarily driven by output increases of gold, nickel, platinum, coal, among other minerals.

Summary of Mineral Output for 2012-2016

	2012	**2013**	**2014**	**2015 Proj**	**2016 Proj**
Growth	**8.5**	**11.3**	**-2.9**	**-2.3**	**2.4**
Black Granite \'000 t	171	174	180	182	183
Chrome \'000 t	408	450	511	280	300
Coal \'000 t	2 564	4 980	6 345	5 000	7 500
Cobalt \'000 t	195	319	358	344	284
Copper \t	6 665	8 275	8 261	7 611	7 347
Gold \kg	14 743	14 065	15 347	18 000	18 500
Graphite \t	7 022	6 934	6 853	7 500	7 900
Iridium \t	412	524	544	502	465
Nickel \t	7 899	14 057	16 633	16 000	17 680
Palladium \kg	8 136	10 153	10 137	9 600	10 000
Platinum \kg	10 524	13 066	12 483	12 000	12 500
Rhodium \kg	891	1146	1140	1096	1096
Ruthenium \kg	787	1012	983	945	968
Diamonds	12015	9589	4773	3500	4000

source: Macroeconomic Team (MOFED, RBZ, Ministry Of Mines, Chamber of Mines and ZIMSTAT).

55. Similarly, the policy thrust on minerals beneficiation and value addition is paying dividends as reflected through higher export earnings of refined gold, processed chrome ore, as well as polished diamonds.

56. Furthermore, a roadmap on platinum processing has been developed and should facilitate commencement of domestic value addition of platinum ore by platinum producing companies from 2016.

57. The establishment of Special Economic Zones is also underway and should promote and speed up the value addition thrust.

58. Other priority areas which should be finalised in 2016 relate to:

- Amendments to Mines and Mineral Act;
- Consolidation of the Diamond Sector;
- Review of the Mining Fiscal Regime;

59. In addition, efforts on plugging leakages through close monitoring, enhancing oversight, transparency and accountability in the sector will be pursued in order to ensure that the country derives maximum benefits from its mineral resources.

MANUFACTURING

60. The manufacturing sector is on a recovery path and projected to grow by 2.1% in 2016, owing to a number of measures put in place by the Government under the ZimAsset programme.

Sub sector	*Weight*	2013	2014 outturn	2015 Proj	2016 Proj
Foodstuffs	*252*	98.7	98.3	102.2	104.0
Drinks, Tobacco and Beverages	*118*	88.8	97.2	100.1	102.0
Textiles and Ginning	*28*	86.1	80.4	84.4	85.0
Clothing and Footwear	*79*	94.3	82.1	83.7	90.0
Wood and Furniture	*24*	104.8	104.4	101.2	101.5
Paper, printing and Publishing	*68*	104.0	101.3	96.3	97.0
Chemical and Petroleum Products	*172*	98.8	90.4	85.9	88.5
Non metallic mineral products	*46*	121.6	131.1	142.9	145.7
Metals and Metal products	*103*	76.3	69.8	69.8	69.8
Transport, Equipment	*20*	100.7	61.8	64.8	66.1
Other manufactured goods	*89*	82.5	68.5	73.3	74.0
Manufacturing Index	*999.0*	94.7	90.6	92.0	93.9
Manufacturing Growth Rate		**-4.6**	**-4.4**	**1.6**	**2.1**

61. In 2016, Government will continue to monitor and evaluate the impact of trade measures that were put in place over the past three years, in support of the manufacturing sector.

62. These measures include the reduction and, in some instances, removal of duty on inputs into production and the upward review of import tariffs and licensing requirements on finished imports which can be easily produced locally.

63. Furthermore, the ongoing rehabilitation of power stations and new investments in power generation should improve power supply from 2016.

64. Equally important is the implementation of Special Economic Zones in order to attract increased investment into the sector, that way

increasing capacity utilization, manufactured exports as well as creation of jobs.

65. The amended Labour Act now provides for the much needed labour market flexibility which promotes productivity, investment as well as competitiveness of local industry.

66. Operationalization of the National Competitiveness Commission will also be essential for improving the ease of doing business and reducing the cost of doing business.

67. The implementation of SADC Industrialisation Strategy, which emphasises on commodity based industrialisation; and establishing the National Productivity Centre will also be prioritised in 2016.

SMALL MEDIUM ENTERPRISES, WOMEN AND YOUTH EMPOWERMENT

68. SMEs, embracing the broad entrepreneurship of our women and youth, retrenchees, other individuals and interest groups comprise the back bone of our economy. Their immense contribution to job creation, household incomes, GDP, innovation, and social integration requires both public and private sector support.

69. It is estimated that SMEs account for about 90% of the country's employable population or more than 5.8 million people. Furthermore, according to Finscope Survey of 2012, SMEs contribute about 60% the country's GDP.

70. Given their growing involvement in economic activity, it warrants to reciprocally support them by creating a conducive business environment through a business friendly policy and regulatory framework.

71. Accordingly, the Cooperatives Policy and Cooperative Societies Act including the Savings and Credit Cooperatives will be reviewed and, where necessary, amended to reflect current demands for SMEs.

72. Similarly, appropriate entrepreneurship training will be extended to both existing and aspiring entrepreneurs.

73. Government also recognises that access to new markets and finance are the most pressing issues for SMEs and hence capitalisation of SMEDCO and the engagement with various financial institutions to open and expand SME facilities are priorities.

74. Furthermore, clustering SMEs and linking them up with established companies also provides scope for market expansion, access to inputs and technology as well as enhancement of entrepreneural skills.

75. Above all, SMEs are encouraged to embrace ICT as a tool for sourcing vital information on entrepreneurship, markets, management, technology, finance and networking, among others.

TOURISM

76. Tourism is one of the key growth drivers taking advantage of our rich natural and man-made attractions as well as the peaceful environment prevailing in the country.

77. The sector is set to grow by more than 4.7% in 2015, reflecting growth in confidence in Zimbabwe as a peaceful tourism destination. In the medium term, tourism is projected to maintain moderate growth rates of above 4%.

78. Current interventions on marketing, relaxing the visa regime, investment in tourism and other related infrastructure, as well as promotion of the 'Open Skies Policy' will be pursued in 2016 and should see the sector making further growth strides.

79. Furthermore, implementing the Tourism Special Economic Zone (the Northern Circuit) in the Victoria Falls area as well as finanlising the National Tourism Master Plan will be integral programmes in promoting the tourism sector.

CONSTRUCTION

80. In 2015, growth for the construction sector has been revised upwards from 3.9% to 7%, driven mainly by individual home building and small scale projects. Reflecting this surge is the increase in

cement produced and sold in the domestic market, including other indicators such as imports of lime, cement plastering and bituminous substances, which increased on average by 15%.

81. In the outlook, the construction sector is projected to grow by 4.5% in 2016, benefiting from a number of pipeline projects particularly road, housing, power, water and mining.

INFRASTRUCTURE & UTILITIES

POWER

82. Electricity is a key factor of production in all sectors of the economy and hence the need to ensure incremental power generation in line with economic growth.

83. As from the second half of 2015, power generation has been declining due to a number of factors which include declining water levels at Kariba Dam following the poor rainfall season. This, coupled with interruptions during rehabilitation works at Hwange and Bulawayo thermal power stations as well as system disturbances arising from technical faults, posed some power generation challenges.

Power Generation and Supply

84. While temporary interruptions from rehabilitation affect economic activities, in the medium term, these necessary works essentially improve power generation and supply and hence will be pursued.

85. The ongoing construction work on the Kariba South Extension together with the construction of Hwange 7 & 8 and other solar projects will be accelerated in order to further improve power supply.

86. Furthermore, development of mini-hydro power stations on all major dams in the country will also be prioritised.

87. In the medium term, the following planned projects will be brought on board and these include the following:

	Additional Capacity	**Estimated Construction Period**	**Estimated Project Cost**
Hwange 7 & 8	600 MW (2 x 300 MW)	42 months	1.5 Billion USD
Gairezi	30 MW (2 x 15 MW)	30 months	90 Million USD
ZPC Solar	100MW	18 months	-
Batoka	800MW	72 months	3 billion

Independent Power Producers

88. Independent Power Producers (IPPs) are also important players in augmenting electricity supply in the country. Government has so far

registered about 20 IPPs and currently 8 are operational. In the medium term, efforts will be directed towards reducing operational impediments to encourage participation of the IPPs.

Transmission and Distribution Infrastructure

89. Efficient transmission and distribution infrastructure reduces losses during wheeling of power from generating plants to consumers. As such, supporting the rehabilitation and upgrading of transmission and distribution infrastructure will be priotised in order to ensure reliability of power supply.

Demand Management

90. Total power supply will continue to be outstripped by demand, compelling institution of demand management measures, which will include use of efficient lighting systems, adoption of solar energy, as well as embracing of other energy saving equipment and habits.

TRANSPORT AND COMMUNICATION

91. A well performing transport and communication sector is vital for attracting investment, supporting productive activities and promoting overall economic development. The sector currently accounts for 10.4% of GDP.

Transport

92. The country's transportation network, although faced with a number of challenges, remains efficient with wide coverage serve for railways. However, with the emerging demands, as the economy improves, it is essential that Government pays attention to challenges in the area of road rehabilitation, maintenance and dualisation aviation infrastructure such runways as well as the overhaul of the railway system.

93. Furthermore, in view of the huge resource requirement for such projects, joint ventures, public private partnerships and loan financing will be embraced as major financing options in the implementation of these projects.

Communication

94. The communication sector has witnessed rapid growth in the recent past resulting in improvements in electronic, internet and voice penetration rates.

95. Notwithstanding this progress, the country still experiences short fall in internet penetration and broadcasting coverage, particularly in remote areas.

96. In order to catch up with the rapid global developments in this sector, the following programmes will be pursued:

- Enhanced expansion of both internet and voice connections;
- Digitalisation of broadcasting services;
- Enhanced implementation of E-Government system;
- Completion of current optic fibre backbone projects;
- Establishment of Community Information Centres; and
- Establishment of National Data Centres.

SOCIAL SERVICES

97. Guaranteeing quality social service delivery, particularly in the areas of health, education, social welfare, housing, water and sanitation, is essential for fighting poverty consistent with our sustainable development goals.

98. Despite formidable strides made under the above sectors, a lot requires to be done in order to improve the welfare of our population.

99. In the medium term, focus will be directed at the following issues and programmes.

- Resourcing health facilities at Central, Provincial, District, Rural Health Centres and Urban areas;

- Unfreezing critical posts in both health and education;
- Decongest schools through construction of more schools;
- Health and education infrastructure in the newly resettlement areas;
- Enhancing development of water facilities in both urban and rural areas; and
- Mobilising private resources for housing projects.

Public Enterprises

100. The reform of Public enterprises is essential for improving public service delivery and for enhanced contribution to GDP. However, of late, there has been insignificant progress in this area, making it a priority for 2016 reform agenda.

101. Specific issues for consideration relate to restructuring, governance, accountability, costs rationalisation and remuneration framework, among others.

GOVERNMENT FINANCES

102. The slowdown in economic activity has also negatively affected the performance of public finances as well as balance of payments.

103. Consequently, limited budget capacity has meant low capacity to support service delivery and implementation of ZIM-ASSET programmes and projects.

104. However, to augment domestic resources, Government is pursuing both domestic and external alternative financing for key programs under the ZIM-ASSET.

105. The above efforts are being complemented by corrective measures on managing our current expenditures within affordable resources.

Revenues

106. The slowdown in economic activity is also being reflected through underperformance in revenues. Cumulative revenue collections for the period January to August 2015 amounted to US$2.29 billion, against a target of US$2.50 billion. For the rest of 2015, revenues are projected at US$3.69 billion against the original Budget US$3.9 billion.

107. Revenues in the medium term are projected to increase marginally in line with expansion of the revenue base.

108. In 2016, total revenues are projected at US$3.85 billion.

109. Measures will be put in place to strengthen revenue collection, plug revenue leakages, strengthening revenue administration and rationalize the tax expenditure regime in order to meet the target.

Expenditures

110. Revenue underperformance, during the first half of 2015 faced rising expenditure pressures. Overall expenditure for the first seven months of 2015 amounted to US$2.25 billion. This has militated against timely implementation of planned projects and programmes as well as payment of some overdue obligations.

Fiscal Consolidation

111. As we look into 2016, focus will be on managing expenditures in line with revenue developments. Specific key areas include the following:

- Striking a balance between current expenditure demands and necessary development programmes financing including infrastructure and priority social spending;
- Improving social spending consistent with our commitments under the SMP;
- Instilling financial discipline through strengthening public finance management system; and
- Prioritising clearance of arrears.

Education and Skills Development

112. Government's interventions in the education sector have primarily been emphasizing on the attainment of universal primary education, sustaining the gains on literacy levels as well as improving learning outcomes through investment in infrastructure and learning materials.

113. The Value Addition and Beneficiation thrust under ZIM-ASSET requires the country to invest in human capacity development, emphasizing on the production of learners with core competencies in the cutting edge fields of mathematics, engineering, science and technology and ICTs, thus enhancing the country's productivity and innovation capacity.

114. Cognisant of the role education plays in the socio-economic development and growth agenda of the country, the education sector will thus need to play a more transformative role.

115. In this regard, the review of curricula being undertaken by the Ministry of Primary and Secondary Education, offers the opportunity to:

- Address skills shortages in science and technology, mathematics and ICTs;

- Improve the quality and relevance of education, emphasizing on Technical and Vocational Education and Training (TVET); and
- Promote social inclusion and cohesion through the teaching of life skills.

116. Furthermore, Government will continue to invest in improving the competencies of teaching staff through various on-the-job staff development initiatives as well as reducing the infrastructural deficit in the sector.

Social Protection and Inclusion

117. Social protection interventions will continue focusing on reducing poverty at the household level, increasing access to child protection and basic education services as well as providing crop input support to vulnerable households that are food insecure.

118. Notwithstanding the above traditional role, it becomes incumbent for Government to foster initiatives that meaningfully advance the participation of vulnerable women and youths in the productive sectors of the economy as a way of reducing dependency on social welfare.

119. In addition, Government will need to reform existing social protection programmes focusing on improving beneficiary targeting, the efficiency & effectiveness of resource usage, coordination of funds

from various stakeholders and clarifying roles and responsibilities of all stakeholders to avoid overlaps and duplication.

120. In this regard, the Ministry of Public Service, Labour and Social Services has already commenced reviewing the Basic Education and Assistance Module (BEAM) Operational Manual.

Health

121. In order to improve access to quality health care services, the Budget will continue to focus on the following interventions:

- Strengthening immunization and nutrition services;
- Improving the availability of medicines;
- Improving the efficiency of service delivery at health facilities;
- Promotion of health awareness campaigns, focusing on non-communicable diseases; and
- Promotion of anti-malarial programmes.

Domestic Payment Arrears

122. Non-payment of Government contractors and suppliers is extremely detrimental to the growth of the private sector & overall transformation of the economy.

123. In this regard, elimination of domestic payment arrears remains one of the key interventions on the public finance front, focusing on:

- Enforcing the commitment control system;
- Implementing the Budget as approved; and

- Implementation of prepayment systems with regards to utilities.

Strengthening Public Finance Management

124. Modernizing our Public Finance Management (PFM) systems remains a cornerstone of our structural reform agenda on the public finance front.

125. The management of public finances for a more efficient and effective delivery of social services and infrastructure development stands to benefit from the institution of corrective measures that address Audit observations made by the Auditor General in her 2014 Audit Report to Parliament.

Development Partner Support

126. As alluded in the 2015 Mid-Year Policy Review Statement, Development Partners (DPs) play an important role in complementing Government efforts under various development programmes in such sectors as health, education and agriculture, among others.

127. Government continues to engage Development Partners to channel their assistance through our national budgetary systems in order to harmonise and enhance aid efficiency, effectiveness and its complementarity role.

Debt Repayments

128. External debt payments remain a crucial credibility issue in our re-engagement process with creditors.

129. Hence, honouring of our obligations to creditors will be a priority as we reengage creditors in order to normalise relations, enhance credit rating and that way, un-lock new financing vital for developmental projects.

PUBLIC DEBT

130. The outstanding payment arrears continue to impede Zimbabwe's access to external finance, hampering its development agenda. The current public debt amounts to US$7.1 billion (49.9% of GDP) of which US$5.6 billion (39.3% of GDP) are arrears.

131. In 2016, the debt and arrears are projected to marginally increase to US$7.4 billion and US$5.7 billion, respectively.

Debt Resolution Strategy

132. Government has embarked on a reengagement process with the creditors. The reengagement with multilateral creditors also involves implementation of the SMP agreed with the IMF, which is way into its conclusion phase ending December 2015.

133. Much progress has been made in this front, with successful attainment of agreed targets with the IMF under the both SMP 1 as well as the successor programme first phase. The adherence to the SMP will help Zimbabwe to send clear and positive signals to creditors, international financial markets and Development Partners of Government's string commitment to the implementation of sound macro-economic policies.

134. This will engender confidence among creditors, development partners and investors.

135. The key objective is to establish a track record of cooperation with the creditors including the IFIs, on policies and payments.

136. Hence in 2016, the reengagement process will be continued with a view of moving a step forward by agreeing on a full programme with IFIs as well as conclusion of an arrears clearance strategy, that way opening the avenue for accessing new financing.

FINANCIAL SECTOR

137. The financial sector, which provides a lifeline to the rest of other productive sectors, generally remains stable in spite of constraints in the operating environment. This stability is a result of various initiatives by Government and other key stakeholders in instilling discipline in the sector.

138. In order to maintain this stability, Government will continue to focus on instituting corrective Statutory Instruments including the amendments to the Banking Act with a view of strengthening management, supervision and surveillance of financial institutions as well as protecting depositors.

139. Attention will also be directed at essential issues such as adequate capitalization of banks as well as managing of non-performing loans.

TRADE

Exports & Exports

140. In 2016, exports are projected at US$3.7 billion, against imports of US$6.2 billion, resulting in a trade gap of over US$2.4 billion.

141. In this regard, it will be necessary that we manage our imports in line with the SADC Industrialisation Policy thrust, whilst at the same time instituting appropriate measures which promote exports, particularly value added and beneficiated products.

Foreign Direct Investment

142. Policy clarity and consistency are integral in promoting FDI. In 2016, FDI is projected to increase to US$614 from US$591 million in 2015, benefiting from the policy clarifications by Government as well as the reengagement process with the creditors.

143. However, FDI inflows into the country, remain far too low relative to the investments requirements for ZimAsset programmes and levels flowing into other regional counterparts.

144. As we strive to catch up on attracting FDI, more attention will be paid to addressing the ease and cost of doing business, concluding outstanding BIPPAs as well as removing infrastructure bottlenecks, among other priorities.

3 CONCLUSION

145. The above issues and proposals are by no means exhaustive. Stakeholders are invited to make further relevant inputs, to enrich the 2016 National Budget.

146. In addition, the projections made under the Macro-economic and Budget Framework: 2016-18 are indicative and will continue to be reviewed, taking into account any new developments and proposals during formulation of the 2016 Budget.

147. The public is also encouraged to visit the Treasury Website: www.zimtreasury.gov.zw for comprehensive fiscal and economic reviews and other policy documents such national development programmes including the Zim- Asset, National Budgets, as well as Mid-Year Fiscal Policy Reviews.

148. Inputs may also be directly submitted to Treasury, e-mailed, or presented during the forthcoming public consultative meetings, whose details will appear in the public domain.

THE TREASURY,

HARARE
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