THE ZIMBABWE ECONOMY

Current Economic Situation

October 2018

Latest Developments

- **Monetary Policy Statement**
- **Fiscal Policy Statement**
- **Transitional Stabilisation Programme**

MONETARY POLICY ANNOUNCEMENTS

Introduction of Separate FCA Accounts for Nostro and RTGS funds

With immediate effect, all banks are directed to effectively operationalise the ring-fencing policy on Nostro foreign currency accounts by separating foreign currency accounts (FCAs) into two categories, namely Nostro FCAs and RTGS FCAs.

Introduction of Separate FCA Accounts for Nostro and RTGS funds

As a further support to this measure and to provide credit enhancement or deposit protection for the Nostro FCAs, the Reserve Bank is finalising discussions with the African Export-Import Bank (Afreximbank) towards a US$500 million Nostro Stabilisation Guarantee Facility (NSGF) to assure Nostro FCA holders that foreign currency shall be available when required.

Introduction of Separate FCA Accounts for Nostro and RTGS funds

For the avoidance of doubt, foreign currency in the Nostro FCAs pertains to free funds, diaspora remittances, international organisations' remittances, portfolio investment inflows, loan proceeds and export retention proceeds.

Introduction of Separate FCA Accounts for Nostro and RTGS funds

- **It is also essential to note that all exporters retain 100% of their export proceeds, with the exception of gold producers, who retain 30% of export proceeds; platinum, diamond and chrome producers retain 35% and tobacco and cotton producers retain 20%.**

Introduction of Statutory Reserve Requirement to mop up excess liquidity

- **Given the increased creation of money within the economy mainly as a result of fiscal imbalances, the Bank shall be introducing the statutory reserves requirement with effect from 1 November 2018 at a level of 5% on RTGS FCAs on a weekly compliance basis in order to mop up excess liquidity from the market.**

Treasury Bill Auctions

- **In order to promote transparency in the issuance of Treasury Bills, with effect from November 1 2018, the Reserve Bank, on behalf of Government, will be inviting investors to tender for Treasury Bills.**

FISCAL POLICY STATEMENT

Identifies Major Challenges:

- Foreign currency and cash shortages;
- Unsustainable high budget and current account deficits;
- Emerging inflation pressures;
- Slow moving re-engagement process;
- Infrastructure deficiencies; and
- Weak social service delivery.

…The Budget Deficit

- **The financing of the deficit was mainly through domestic borrowing with the use of instruments such as Treasury bills, overdraft with the Central Bank, cash advances from Central Bank, arrears and loans from the private sector.**

…The Budget Deficit

- **Such financing mechanisms are crowding out the private sector, hence constraining production. This also increased money supply in the economy translating into exchange rate misalignment and inflationary pressures.**

…The Budget Deficit

- **Government's overdraft with the Reserve Bank totalled US$2,3 billion at end of August 2018. The statutory limit is 20% of last years government expenditure, or US$762,8 million.**
- ***Government is therefore in breach of its own regulations***

…The Budget Deficit

- **Similarly, the high deficit has caused the expansion of domestic debt from US$275,8 million in 2012 to current levels of US$9,5 billion**
- **External Debt is US$7,4 billion.**
- **This brings total public debt to US$16,9 billion.**

PROPOSED FISCAL MEASURES

- **Auction Treasury Bills**
- **Issue Infrastructure Bonds**
- **Privatise or Reform State – Owned enterprises**
- **Restructure Fuel Industry**
- **Replace Transaction Tax with 2% per Dollar Electronic Transaction Tax**

“In volume terms, more than 99% of payments were through electronic and mobile banking platforms with mobile banking constituting 84%.”

ELECTRONIC TRANSACTIONS		
	$ *In one week...*	$ *Annual Total*
Week to Sep 14 Value	2 688 460 000	139 799 920 000

$2,6 billion transactions a week…

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Displaced tax yielded $2,5 million a week…

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The 2% per Dollar, Electronic Transaction Tax, $53 million a week…

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@ 2% tax per dollar	53 769 200	2 795 998 400
Tax increase %		2 053

Compared to Formal Earnings and Existing taxes…

NATIONAL EMPLOYMENT STATISTICS		
	Employed Population	$ *Annual Total Salaries*
Employed Population	780 000	7 000 000 000
	Average Annual Income	8 974

Existing Taxes…

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	VAT	1 360 000 000
	Excise Duties	815 308 000
	Import Duties	358 880 000

Tax Payments Forecasts, 2018…

(excludes Company Tax & Mining Royalties)

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Tax Revenue Forecasts, 2018…

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We are severely over-taxed already!

IMPACT IF 2% WERE APPLIED TO ALL ELECTRONIC TRANSACTIONS

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...but, some of this would be paid by informal sector operators

Exemptions from the 2% per Dollar Electronic Transfer Tax

- Payments for sums below $10
- Intra-company transfers of funds, including transfers from intermediary accounts
- Transfers of funds on purchase or sale of equities
- Transfers of funds on purchase or redemption of money market instruments
- Transfers of funds for payment of salaries
- Transfers of funds for payment of taxes
- Transfers of funds to intermediary accounts, such as to conveyancers
- Transfers of funds in respect of foreign currency-related payments

Impacts of the Remaining 2% per Dollar Electronic Transfer Tax

- Perhaps the exemptions will reduce the revenue from the 2% Transaction Tax by about half, or $1,4 billion.
- However, the remaining $1,4 billion will reduce purchasing power, reduce sales volumes and reduce VAT as well as Company Profit Taxes.
- Employment and PAYE taxes could also decline and the hoped-for economic recovery might not take place.

Transitional Stabilisation Programme

This starts with highly improbable GDP forecasts…

Macro-economic and Fiscal Projections

	2018	2019	2020
Overall Performance			
Nominal GDP at market prices (US$ million)	25774.6	28927.6	32766.1
Gross Capital Formation	4331.0	5343.4	6287.5
% of GDP	*16.8*	*18.5*	*19.2*
Real GDP Growth (%)	6.3	9.0	9.7
Inflation (Annual Average) %	4.0	5.0	5.0
Per Capita Income	1720.1	1883.4	2081.3

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Former GDP Projections were also extravagant...

Annexure 5: Fiscal Framework (US$m)

Budget Framework	2017 Est.	2018 Prj.	2019 Prj.	2020 Prj.
Nominal GDP (US$ Million)	18130.0	19426.3	21108.5	23067.7
Real GDP Growth (%)	3.7	4.5	5.6	6.0
CPI Annual Average (%)	1.1	3.0	5.8	6.3
Revenue and Grants (US$M)	4338.5	5071.2	5484.4	5970.0
Tax Revenue (US$M)	3668.5	4300.0	4675.9	5080.0
% of GDP	20.2	22.1	22.2	22.0

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According to the Executive Summary of the Transitional Stabilisation Programme:

"With respect to agriculture, the Programme presents quick-win investment opportunities for realisation of self-sufficiency and food surpluses that will see the re-emergence of Zimbabwe as a major contributor to agricultural production and regional food security in the Southern Africa region and beyond.

Currency Reform

- The short term measures that are critical in tackling these challenges, include currency reforms and improving foreign currency generation to stabilise the foreign exchange market.

Currency Reform

- Significant external financial support for the Transitional Stabilisation Programme over 2019 and 2020 will, therefore, be necessary to anchor the envisaged currency reforms.

Domestic Currency Reform

- As the economy undertakes reforms and re-engagement efforts bear fruit, the economy's productive capacity is expected to improve and strengthen the economy's external position, thereby creating the necessary conditions to sustain currency reform.

Domestic Currency Reform

The key conditions to sustain such domestic currency include:

- Sustained macro-economic stability through fiscal consolidation.
- Generation of adequate foreign exchange reserves, to anchor the currency.
- Enhanced business confidence.
- Attainment of a rapid economic growth path.

Domestic Currency Reform

- Vision 2030 envisages Zimbabwe undertaking currency reforms during the period to 2030, subject to the economy meeting the above currency anchors.

  - In this regard, introduction of a local currency will, therefore, only be considered once the country has attained conducive macro-economic fundamentals.

Transitional Stabilisation Programme: Policy Measures on Health

In the health sector, the Programme targets incremental investments to achieve equitable coverage and enhanced quality of health delivery, to address the following critical challenges:

- Sub-standard quality of maternal health services, such as ante-natal care, delivery, and post-natal care, including prevention of mother-to-child transmission of HIV, and sexually transmitted infections.

Transitional Stabilisation Programme: Policy Measures on Health

- Medicine shortages, as well as family planning, and other essential drugs.

- Inadequacy of emergency transport and communication systems, which have a bearing on mortality rates.

- A growing burden of non-communicable diseases, due to sub-optimal dietary habits, lifestyle, and poor health services.

Transitional Stabilisation Programme: Policy Measures on Health

- Inadequate mitigation of environmental pollution, poor water, sanitation, and hygiene infrastructure, nutrition and food security issues, which continue to affect the health status of citizens.