PLATINUM SECURITIES PVT LTD

(Member of the Zimbabwe Stock Exchange)

Investor Note

2016 Mid – Term Budget Review Statement

08 September 2016

Executive Summary

The Minister of Finance Mr Patrick Chinamasa released the 2016 Mid Term Fiscal Policy Review Statement on Thursday the 8th of September 2016. The Fiscal Policy Review Statement was released under the theme **"*Improving Investor Confidence to Enhance Productivity."*** He revised downwards the projected GDP growth for the year 2016 from the initial 2.7% to 1.2% on the back of underperformance in the productive sectors namely: agriculture, mining, manufacturing, tourism and services. Some of the challenges facing the sectors include drought, depressed international commodity prices, limited FDI inflows as a result of our debt overhang, growing fiscal deficit and resultant fall in incomes and decline in aggregate demand. For the full year ending 2016 the Minister is expecting revenue of just under US$3.7 billion and a budget deficit of about US$1 billion. In the paragraphs, below we discuss implications of budget measures on investment markets as well as other selected sectors.

Investment Markets Implications

Stock market implications

I. The alarmingly high levels of recurrent expenditures that have continued to strain the fiscus and the very high debt levels have severely affected investor confidence on the ZSE as has been observed by the continuous plummeting turnover levels. The month of August recorded the lowest turnover levels since dollarization of $7 million. Foreign participation has been dwindling with foreign buys continuously being outpaced by foreign sales in 2016. As such the very strong voice on wage bill reforms in the interim budget may go some way in rebuilding investor confidence in the government's efforts to restructure an unsustainable fiscus gap. Investor confidence is likely to be stronger if the measures taken and proposed are met will full cooperation from all parties concerned such that the said benefits start to be realised in the medium term.

II. The settlement risk (as highlighted by the Minister) embedded in other fixed income instruments increases the threat of continuously placing money on the money market for pension funds which may leave the equities market as the next best option for investments.

III. The Tokwe Mukosi dam is now 95% complete and resumption of work began at the beginning of June after payment of some of the arrears to the contractor. US$20 million which is needed for final completion has been ring-fenced by Treasury for disbursement during the second half of the year in order to ensure that the dam starts to contribute towards raising agricultural output in the low-veld. This will go a long way towards supporting agricultural activities and the production of sugar for the viability of companies like Hippo and Star Africa which have been affected by irrigation challenges in the area.

IV. Investor confidence on the ZSE may be adversely affected by the slow progress towards policy clarity and implementation. The idea for Special Economic Zones has been in place for years now and it still has not yet become a reality despite the pitiable state of our industries.

V. Electricity supply consistence has been quite steady since December 2015 as the country's energy deficit has been supplemented by imports from Eskom in South Africa and HBC of Mozambique. This is likely to lower costs of high energy consumers such as manufacturing companies like Delta and other intensive energy users such as Econet whose energy costs where previously elevated due to additional costs of alternative energy.

Money Market Implications

I. One of the key issues that affect investor confidence positively which the Minister highlighted is the maintenance of the multicurrency system. Emphasis on maintenance of the multicurrency system sterilises the hype that has been feeding into skeptism since the announcement of the proposed introduction of Bond Notes (which are meant to incentivise exporters). Based on that, it is our view that it shall continue to be business as usual on the money market and there is a low chance of "Zim Dollar return" associated bank runs.

II. Adequate capitalisation and improving profitability of the banking sector is critical in buttressing confidence in the financial sector as well as country image. All the banks are important participants to the money market and their capitalization strengthens investor confidence in money market products and therefore increases activity in money market.

III. Money Market Rates are likely to remain in the 5% to 6% range in the short term with trading remaining skewed on the 30 day paper as the banking sector continues to maintain a short liability structure.

IV. On the other hand, in the medium to long term if banks continue to become cautious in their lending approach like what they have been doing we are likely to see a slight knock in the money market ranges to between 4% and 5% per annum on the back of dwindling demand for loanable funds

V. The effect of the activation of the interbank market through Aftrades is already being felt through the softening of money market rates through unlocking deposits held by banks with surplus funds. Although the level of NPLs has reduced to 10%, they still remain relatively high compared to an international benchmark of 5%.

VI. The import reduction measures through SI 64 of 2016 instituted by the government are expected to have some positive effects in improving money circulation in the economy which ultimately filters into the banking system thereby improving lending and money market activity.

Property Market Implications

I. The target of 313,368 constructed houses or serviced stands by 2018, in line with the National Housing Delivery Programme 2014-2018 is being undermined by lack of affordable financing, availability of serviced land, availability of offsite and onsite infrastructure such as road, water and social amenities.

II. The Government will partner with private developers and building societies to ensure provision of basic services to new settlements. The partnerships will be Public Private Partnerships. Given general lack of capital with most private property developers we do not foresee a significant boom in the PPP in the property development sector.

III. Housing prices for sale and rentals will continue to decline as deflationary pressures for non-food items continue to persist in the market. This will limit property transactions to low value properties which are predominantly residential houses in the high density suburbs. We expect rental yields in the residential sector to remain generally defensive in the short term albeit with risk of taking a lurch in the medium to short term

IV. Deflationary pressures are expected to continue stalking the economy as aggregate demand remains subdued .This will have negative implications on performance of various property clusters like the retail properties and industrial sector whose performance is generally predicated on overall aggregate demand in the economy. Therefore, we expect rental yields in the retail and industrial sub sectors to take a knock.

V. Lending Interest rates have been reduced to a maximum of 15% at the financial institutions. This will also aid in the pricing of mortgage finance when viewed from a mark to market perspective. However, availability of mortgage finance due to its long term nature will be stifled by the short term liability structures of most banking institutions therefore we do not foresee an average increase the property market activity. This may stifle the governments' ability to realise its National Housing Delivery Programme target by 2018.

VI. On the other hand, the 'few' partnerships between the Government and Private developers will marginally aid in improving provision of housing units in the economy by 2018.

Sector Review/Policy Measures	Implications
Agriculture • Agricultural output is forecasted to growth by -4.2% from the previously forecasted 1.8% due to the El Nino effect on rainfall that severely affected the output of maize and cotton. • Tobbaco output at 201 million kgs was higher than in the previous year output of 198.9 million kgs with an average price of $2.94 against $2.95 in 2015. • This year's estimated maize grain harvest of 511 816 tons falls short of the normal national grain requirement of 2.2 million tons • The maize grain deficit of 1.7 million tons is being complemented by private sector and development partners' imports. • The cattle herd stood at 5.528 million, up from 5.477 million in 2014/15. • With assistance from Japan, Government is undertaking development and irrigation works at Nyakomba Irrigation scheme at a total cost of US$15 million. Commencement	**Implications** • Underperformance of the sector will exert some pressures on the country's coffers. The government will import agriculture products to ensure food security in the country. • Setting up of a commodities exchange which facilitate price discovery through forces of demand and supply as well as shortening the turnaround time for the payment of agriculture produce is inevitable if the country's agriculture is to improve. • The Special Maize Production Programme is a very ambitious programme that will require a total of about $516 million in the first 3 years. • Government intends to engage the banking and private sector to raise this capital that is needed. This is where the primary concern

of works is expected during the second half of 2016. The government has also secured other grants and is also being assisted by the European Union and the Swiss Development Cooperation in developing and building irrigation programmes in different parts of the country.

- Government has, through ARDA, organised A1, A2 and commercial farmers with potential irrigable land that are facing financial and technical challenges to overcome these by working with ARDA to utilise land that would, in the absence of irrigation, otherwise lie idle. To date farmers with a potential irrigable hactarage of 41 000 ha have tendered their farms for possible partnerships with a potential to produce 300 000 tons of maize, 320 000 tons of wheat and 30 000 tons of soya beans.
- Government received equipment worth US$38.4 million under the More Food for Africa Programme from Brazil, Another $30 million is yet to be received which will depend on ability to repay the first tranche.
- A Special Maize Production Programme targeting 400 000 hectares of land, expected to produce at least two million tons of maize, enough to meet national grain requirements for is. It may be a challenge to raise this amount of money given the strain that the private sector is already taking. The banking sector on its own has been reducing its lending activities due to the high level of non-performing loans and the difficult operating environment that has been affecting business activities.
- While the program of supporting special maize program & command agriculture is commendable, the government should also work on providing the financiers of the program with post investment safeguards which will also ensure that significant capital is not lost in the process.
- Once the above discussed issue is resolved, it is our view that efforts by the government will significantly assist in alleviating hunger in the nation at large.
- Growth of a viable private sector through attraction of FDI is essential in order to increase the number of players from which to raise necessary funding and to also boost employment to support the viability of agriculture sector.

the country. • Government is engaging the banking and private sector to mobilise the respective resources to support farmers under this programme, on a cost recovery basis. A facility of $85 million is now in place	
Manufacturing • The sector's growth rate was revised downwards from 2.1% to 0.2%. • The projection of 0.2% for the manufacturing sector is due to resilient activities in foodstuffs, drinks, tobacco and beverages, textiles and ginning, clothing and footwear, as well as non-metallic mineral products subsectors. • The sectorial distribution of credit to Manufacturing sector dropped by 1% from 12% to 11%. • Suppressed capacity utilisation in the manufacturing sector was one of the factors that led to the decline in export performance and overall slowdown in real economic activity in 2016. • Support has been granted to the Manufacturing sector through the gazetting of Statutory Instrument 64 of 2016 which removed more goods that are locally available from Open General Import Licence exemption. • The overall objective is to support the	**Implications** • As evidenced by the reduction in the revised sector's growth rate, the Manufacturing sector is facing a lot of constraints. • These challenges continue to limit capacity utilisation hence there is need for the Government to initiate programs that enhance productivity in the companies in the manufacturing sector. • The growth of the sector remained subdued in spite of Government efforts to resuscitate the sector by issuing the Statutory Instrument 64 of 2016. • This move reduces imports and promotes domestic production. This will also create fair competition in the local market and companies may boost their capacity utilisation and production levels. • Revenues and Profits are likely to improve for companies that are

local fragile industry from unfair competition, that way, facilitating employment creation and GDP growth.

- The sector had the highest number of approved projects by Zimbabwe Investment Authority worth USD$ 49 million for the period from January – June 2016.
- Challenges faced in the sector include limited domestic and foreign direct investment (associated with our debt overhang), the growing fiscal deficit also impacting on the liquidity of the financial system and manufacturing business activities, entry of cheap imports, leaky border posts, depreciation of regional currencies, low aggregate demand, obsolete machinery, which cannot be replaced due to high costs of capital and the liquidity crunch.

able to capitalise on the gap created by the government.

- If local companies manage to take advantage of these temporary measures, they can grow and become resilient on both the domestic and global markets.
- Our view is that even though efforts to reduce imports that compete with local manufacturers have been fruitful. The resuscitation of the manufacturing sector greatly depends on the ability to provide fiscal space for manufacturing projects, improvement in the supply side of inputs(in particular agriculture), the flexibility of the indigenisation policy for investor attraction, renewal of old equipment to improve efficiency, provision of cheap finance and the ability to draft and implement various project plans to increase capacity utilization, productivity and as well as boosting employment in the economy.
- We believe that if funds are available, these approved projects may turn to boost the sector’s growth rate in the future.

Information Communication Technology	Implications
• The government has been working on the Digitalisation Migration Program which has been facing funding constraints. • Funding for Digitalisation was envisaged to come from broadcasting fund, leveraging on the dividend spectrum space, created through migration from the anlague system. • Broadcasting Authority sold the spectrum for US$200 million to Netone which, however, could not raise the requisite amount. The government has taken a decision to dispose of the spectrum to suitable entities, with the Ministry responsible for ICT looking at modalities for the disposal. • To date US$ 155.6 million has been disbursed towards Net One National Network Broad Band Project. • Mobile Soft Switch and Media Gateway with capacity of 4 million subscribers	• Our view is that ICT remains a key driver of economic growth. In other words, enhancements of ICT investments result in positive economic growth. • Our view which is guided by empirical evidence (on the relationship between ICT Investments & Malaysia's economic growth) shows that ICT based investments of the private sector are better drivers of economic growth when compared to government based ICT Investments. • Based on the above, we believe the government should go a long way in promoting private sector ICT based investments.

has been installed.	
Mining Sector • The Value of mineral output for the first half of 2016 was $806 million, up 8.8% from $741 million during the same period in 2015. • The mining sector is projected to register a modest recovery growth of 13.2% in 2016, driven by anticipated growth in gold and platinum group of metals • The modest growth in mining was registered by most minerals except diamonds, chrome and coal. However these modest gains continue to be undermined by the decline in commodity prices. • Gold, platinum and nickel are expected to remain on a positive trend, whilst diamond and ferrochrome output is expected to be subdued. • The mining Industry requires about US$3.9 billion to optimize production in the next five years, of which planned investments during 2016 are estimated at around US$500 million. • Pipeline beneficiation projects are mainly in gold, platinum group of	**Implications** • The Mines and Minerals amendment bill, and the Minerals Exploration and Marketing Corporation bill seek to establish a modern, transparent and stable mining governance and fiscal framework, necessary to attract capital into the sector as well as promoting exploration and facilitating transparent licensing and utilization of claims. • The key aspect though in attracting huge investments is clarity in policies such as the Indigenisation Policy which still remains unclear, respect of property rights and consistency in policy making. • This is envisaged to improve mining activities and mineral output. • The reduction of energy costs for the gold sector will reduce operating costs, thereby improving productivity of the yellow metal.

metals, base metals and energy minerals. • The combined cost of the beneficiation projects amounts to US$362 million of which US$217 million is for 2016. • The Mines and Minerals amendment Bill, and the Minerals Exploration and Marketing Corporation bill are now before parliament. • The government proposes to review all reserved areas with a view to opening up some areas for prospecting and pegging for interested investors. • The government is considering reviewing electricity tariffs for the gold sector from US$0.12/kWh to the regional average of US$0.08/kWh to reduce operating costs.	
Financial Sector • Finance and Insurance sector growth is now pencilled at 2% down from the initial projection of 5%. • Banking sector deposits increased by 5.5% to US$5.9 billion spurred by tobacco selling related inflows. • Loans and advances declined to US$3.7 billion in June 2016	**Implications** • The capital levels of banking institutions places the whole banking system in a safe and sound mode with reduced chances of systemic risk associated with the failure of one financial institution. • Shortage of US Dollar Cash has negative implications on financial

compared to US$4 billion on June 2015 as a result of cautious lending by banks and disposal of loans to ZAMCO.	intermediation of financial institutions which in turn negatively affects performance of the real sectors of the economy.
• As at 30 June 2016 all the financial institutions were adequately capitalised. The banking sector core capital increased by 16.8% to US$1.04 billion as at 30 June 2016.	• Furthermore banking sector short term liability structure stifles medium to long term lending to productive sectors of the economy like communication, mining and construction sectors.
• Net earnings in the banking sector increased from US$34.9 million in June 2015 to US$68 million in June 2016 as bank embraced technology in banking which is less costly compared to traditional banking.	• Acquisition of bad loans by ZAMCO creates headroom for the banking sector to carry out financial intermediation which in turn positively affects the real sectors of the economy.
• Non-performing loans were at 10% in June 2016 compared to a peak of 20.45% in September 2014.	• The decline of non-performing loans (improvement in asset quality) augurs well for the banking system and economy at large.
• ZAMCO took over US$528.4 million qualifying non-performing loans from the banking sector.	• Despite the decline in NPLs the banking sector faces increasing risk of non-performance of some assets like Treasury Bills that most banks hold on their balance sheets.
• Average Prudential Liquidity ratio was at 49% compared to a regulatory requirement of 30%.	
• All banks were compliant with new lending rates guidelines which should not exceed 15%	• Compliance of banks with new lending guidelines reduces the cost of capital for the real sectors of the economy.
• The banking sector remained sound despite the recent shortages of US Dollar Cash	• The Credit Reference operation is also moving at a snail pace and as

emanating from fiscal pressures. • In light of the importance of sustaining the multi-currency regime government introduced export incentive measures including the Bond Notes scheme supported by US$200 million facility from Afrexim Bank. • The government is also introducing the Diaspora policy as a way of boosting remittances • The government also launched a National Financial Inclusion Strategy to open access to financial services for the marginalised.	such it may take a while for its operations to be fully functional in improving credit risk management. In this budget review statement no information has been given regarding the progress of the Credit Reference Bureau.
Insurance Companies • The performance of the insurance and pension sector has largely remained sluggish, as a result of the prevailing liquidity crunch and general slowdown in the economy. • As at 31 March 2016, a total of nine out of fifty-four registered underwriters were not compliant with the Minimum Capital Requirements as stipulated in Statutory Instrument 21 of 2013. • The upward review of minimum capital requirements for reinsurers from $1.5 million to $5 million awaits the necessary legislation which is being finalised.	**Implications** • The insurance industry continues to be-devilled by poor corporate governance challenges emanating mainly from owner managed insurance entities, conflict of interest and related party transactions. • Some shareholders are engaging in undesirable practices whereby they use their insurance companies as cash-cows to fund their non-insurance business ventures, at the expense of creating the necessary insurance pools (reserves), required to meet insurance claims as and when

- In a bid to comply with minimum capital requirements, Shareholders are transferring assets especially properties into insurance companies without the transfer of the requisite ownership.
- The regulator will address these undesirable practices in the legislation.
- Out of 54 underwriters that were operating as at end of March 2016, only 17 were compliant with the minimum prescribed assets ratio.
- The Insurance and Pensions Commission (IPEC) will take necessary regulatory action against the offending insurance entities in order to protect interests of policyholders.
- The IPEC has taken necessary procurement steps for the installation of the interface IT system that will enable the pension and insurance industry to electronically file returns, as well as produce real time reports for prompt decisions. It will be operational by the end of the year (2016).

they arise.

- The implications of companies' failure to comply with the minimum requirement are; they may fail to pay for claims from clients which can result to closure. This may also result in systemic risk (a risk that affects the overall insurance industry and is unpredictable and impossible to avoid).
- As a result of shareholders transferring properties without the requisite ownership, the assets may never be available to support policy holder obligations and in the case of liquidation, policyholders are usually left exposed.
- In a bid to address the challenges mentioned above, the Commission has drafted Corporate Governance Guidelines for implementation before year end, after necessary consultations with the industry players.
- The Guide lines comprises of; revising the maximum shareholding threshold for individuals and their close relatives, putting in place maximum shareholding thresholds for executives of insurers, providing guidelines on board and board committees' composition,

imposition of fiduciary duties on directors through a statutory instrument and providing guidelines on oversight functions.

- We believe that increasing the capitalization levels for insurers is a critical move in increasing their ability to underwrite business.

External trade and BOP

- Exports for the half year to June declined by 9% from $1.232 billion to $1.124 billion.
- This was due to suppressed capacity utilization in the manufacturing sector, lack of affordable lines of credit, declining commodity prices and drought induced contraction in agriculture.
- The import bill to June was $2.5 billion, 14% down from $2.9 billion in the same period in 2015.
- The decline in imports is due to recently gazetted Statutory Instruments which removed goods that are locally available from Open General Import Licence exemption.
- Diaspora remittances to June were $387.9 million, down from $457.8 million in the same period in 2015

Implications

- The trade deficit gap is still large at $1.376 billion during the first half of 2016.
- The deficit will exacerbate the current liquidity challenges in the country, as funds flow out of the country to settle import bills.
- The Statutory Instruments introduced have slightly improved the trade deficit gap but government needs to implement measures that curb smuggling of import restricted goods into the country as well as providing lines of credit to ensure that production in the local economy improves.
- The decline in remittances have little effect to the state of the liquidity status in the country as the fall in value is largely due the appreciation of the US Dollar against source currencies.

• The decline is attributed to depreciation of source currencies against the US Dollar as well as increased use of informal transfer channels. • The Reserve Bank approved 156 private sector loan facilities totalling $976.4 million, compared to 185 facilities at a value of $1.2 billion in the prior period.	• Dependency on loan facilities by private investors exposes them to a higher default risk, as it becomes costly to produce to commitments to repay the principal, interest and drawdown fees and charges. • This will result in local production being expensive, exacerbating the Import Export gap, as cheap imports will out compete local products.
Public Finances • Revenue for the first six months of the year was US$1.692 billion during the first six months of the year 2016. • Government arms like ZIMRA employed various measures to enhance revenue collections which subsequently improved by 9.4% during the second quarter of 2016. • Some of the measures include automation of ICT systems which include ASCYUDA and Systems Application Program (SAPs). • Another measure which was introduced is fiscalisation which enables ZIMRA to monitor transactions of taxpayers. • Other measures include: Authorised Economic Operator,	• The high employment costs will leave the government without the capacity to run capital projects and this will naturally hinder positive economic growth in the long run. • The expenditure overrun also deters government's capacity to pay its obligations to external creditors further worsening it chances of accessing new lines of credit. • The expenditure overrun itself is also a deterrent to new capital inflows since providers of capital will be wary of money being utilised for payment of both current and outstanding employment obligations which include but are not limited to

Increased Debt Collection, review of duty free allowances, automated verification of travellers rebate of duty among others.

- Zimra is currently engaged in an exercise of fully automating its systems for improving all of its operations from resource management to automatic reminders on due dates, upgrades on tax penalty calculations, online lodging of tax returns, tax clearance applications, clearance of goods, making payments and even in warehousing of goods. Automated verification of travellers to ensure minimal abuse of rebate
- To promote order, transparency and improve efficiency Zimra is currently involved in an exercise for the installation of a Closed Circuit Television System (CCTV) in and outside offices which exercise is expected to be completed by December 2016.
- Transit fraud occurs where goods destined for the domestic market are cleared through ZIMRA as transit goods for other countries, that way avoiding payment of duty. This kind of fraud has been very common in the country and therefore, Government is pensions.
- The budget deficit of $623 million as at 30 June 2016 was financed through the issuance of Treasury Bills by RBZ on behalf of government.
- This lack of capacity to service domestic debt has also seen roll-overs of these TBs, which are posing some financial risks on domestic debt instrument holders and domestic financial institutions.
- This Government borrowing is also crowding out lending to the private sector and, hence, stifling new domestic investment and growth.

- Furthermore, in addition to using these TBs to finance its fiscal deficits, the same are being used in Buying NPLs from banking institutions and have also been issued to pay for the RBZ debt that was adopted by government.
- This situation is unsustainable however and posing a serious threat to the stability of the financial sector and overall economy.
- Participants in TB deal are likely to charge and extra 'haircut'. In other words, we also expect the the

introducing Electronic Cargo Tracking, with the State Procurement Board inviting tender submissions from potential service providers. • To improve efficiencies at the Beitbridge which is the busiest Border post, Government will engage an independent border post expert to reorganise the Beitbridge Border Post. • Inorder to curb corruption at the border border posts by travellers and Zimra officials, whistleblowing through social media is encouraged Zimra is now dealing more harshly with its employees. • In the first half of 2016 22 cases of suspension were dealt with, of which 13 cases were finalised with 4 dismissals and 9 given final written warnings. • Revenue is targeted to be just under US$3.7 billion compared to the initial projection US$3.85 billion. • Expenditures during the six months to June 2016 were US$2.316 billion, against a target of US$2.007 billion, giving over-expenditures of US$308.4 million • Revenue underperformance against over expenditure resulted	discounts on TB's to further widen.

in cumulative budget expenditure of about US$623.2 million • Employment Expenses in the first six months of the year were about US$1.638 billion representing 96.8% of total revenues during the same period. • Budget Deficit is expected to end the year at around US$1 billion.	
Ease of Doing Business Measures • During the first half of 2016, US$305.6 million investment applications were in the manufacturing and mining sectors • Zimbabwe's Ease of Doing Business ranking jumped from 171 (2015) to 155(2016) among 189 nations in the World Bank's Doing Business Indices. • The Government is targeting a ranking below 100 by the end of 2016 • The Government is targeting, for immediate removal, Impediments to Exporting such as bureaucratic export permit requirements, attendant levies and fees related to these regulations and requirements. • The Zimbabwean Government is	**Implications** • The Zimbabwean Government is pursuing a One Stop Investment Shop capable of providing investors with adequate investment information and also facilitating Investment licensing in a short space of time. • The commission for the national Competitiveness Commission will be responsible for reviewing regulations on doing business in order to enhance competitiveness and attractiveness of the country to investors. • The Government has adopted a Border Efficiency Management System which seeks to promote trade facilitation and reduce congestion at the country's border posts through encouraging

pursuing a One Stop Investment Shop. • Government is finalizing the crafting the framework for the creation of Special Economic Zones (SEZs) • The bill which provides the incentive framework has passed through parliament and is awaiting Presidential assent to become law. • The Cabinet approved the National Competitiveness Commission Bill, which is awaiting Parliamentary approval. • Zimbabwe applied for membership of African Trade Insurance in 2010, and the agreement signed in 2011. The agreement was ratified by Parliament and is now awaiting instruments of ratification to be issued by the President. • The government has already paid \$10 million, while \$2.9 million was availed by the by the AfDB towards the \$15 million required for Zimbabwe's membership.	efficient and joint clearances by Border Agencies.
Budget Rationalisation & Realignment Measures • Public Service Wage Policy target is to reduce the consolidated	 • So far the wage rationalisation

wage bill to around 60% of revenue by 2019.

- Civil Service wage bill rationalisation is expected to reduce wage bill by around US$118 million by end 2016.
- Wage Bill rationalisation measures implemented from January 2016 have been yielding savings of around $6.5million whilst those that have been implemented from August will save an additional $6.9 million a month.
- This will culminate in overall monthly savings of US$13.4 million against targeted monthly savings of US$14.7 million, translating into projected annual savings of around US$118 million
- Other cost cutting measures have included rationalisation of phone and fuel allowances, parking of government vehicles at work stations during weekends, after hours and holidays
- Reduction of salaries and allowances by 5-20% starting with Deputy Directors to Ministers effective October 2016.
- Foregoing the 2016 and 2017 bonus. The proposal will translate to savings of around US$180 million per annum

measures that are said to have resulted in savings of about $6.5 million a month have not yet shown any positive effects in overall employment costs. In fact wage costs have actually ballooned to 96.8% which is way higher than previous proportions of around 80%.

- For the first time however the Finance Minister has made some radical announcements in wage bill rationalisation. The removal of annual bonuses alone will lead to savings of $180 million annually which is quite material when combined with other measures.
- The delay in the payment of civil service salaries has made it quite clear that the government is currently unable to pay bonuses given the shrinking revenue base, the very high debt obligations and other pressures on the fiscus.
- Infact this situation was quite apparent in 2015 when the Finance Minister made the announcement of the removal of 2015 bonuses which was the nullified by the President.
- It is encouraging that the government or rather the Finance Minister is aware of the

- Taxing civil servants allowances with effect from 1 October 2016 using a progressive tax structure as is the case in the private sector.
- Issuance of one condition of service vehicle to Deputy Ministers and Permanent Secretaries/equivalent grades. Directors and equivalent grades will migrate towards a broader vehicle loan scheme in replacement of condition of service vehicle.
- Reducing the number of Embassies and Consulates to reign in that bill of Foreign Service missions and to also review benefits for diplomatic staff, including support for educational expenses, rental ceilings and travel support for children of diplomats.
- Reviewing the class of travel arrangements for all Government officials
- Reviewing remuneration levels for Public Enterprises, Local Authorities and Statutory entities to align them with size, service delivery, revenue performance and profitability of individual state enterprises and parastatals.

unsustainability of the benefits and the salaries that are currently obtaining in higher offices of government and diplomats which he is now trying to address. The 5-20% cut in salaries and allowances of Ministers however still remains very low given the benefits that they currently enjoy which are way out of line with the current economic situation.

- In addition to a review in the class of travel arrangements, it may also be necessary to review the number of trips that are taken by government officers and also the number of people who take those trips as these tend to goble a significant portion of travelling allowances.
- Another concern is on the taxing of civil service allowances which will reduce the already low benefits for the bulk of civil servants. This is likely to further strain aggregate demand.
- These proposals are likely to bear material impact if and only if they meet the cooperation of the responsible ministries; otherwise it will only just be a paper rationalisation that may never see the light of day. A strict follow up

• Suspension of all Government bailouts of SEPs that are not supported by approved specific and measurable recovery plans that comply fully with Remuneration Framework and Public Corporate Governance Law. • In the 2017 National Budget, further measures that target employment costs of US$232 million per month by June 2017 and US$219 million by December 2017 are expected to be introduced. • At this level of employment costs, the wage bill translates to about 75% of total revenue. • The target is to reduce employment numbers from the current 298 000 to 273 000 by end of 2017 will yield annual savings of US$155 million	in all these proposals are necessary to bring about these necessary changes. • Visible improvements in the wage bill may actually go a long way in rebuilding the currently very low investor confidence in our government.

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