Zimbabwe Budget Update

IMARA Asset Management

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This first budget from the new President of Zimbabwe, Emmerson Mnangagwa, said all the right things with respect to fiscal consolidation and a clear policy stance on indigenization. Perhaps there wasn't as much radical fiscal reform as we would have liked, but like the cabinet, I am watching for direction. You want to see small changes in the right direction, I think its wishful thinking to expect more pre-elections next year.

The general public seems to be swinging from maximum optimism to maximum pessimism. I think we have to remain patient and watch for consistent credible actions, this will lend legitimacy to what President Mnangagwa is trying to do. The Old Mutual Implied Rate ('OMIR') and the parallel rate will also give you a measure of risk appetite for Zimbabwe.

Here are my views on both the cabinet announcement and the budget:

On the cabinet:

- Not surprised at all, expected very few changes in composition going into elections next year
- President Mnangagwa picked a cabinet composed of people with strong rural support as well as MPs who supported him.
- He definitely had an eye on elections, we should watch for the cabinet he chooses if he wins the 2018 elections.
- One positive surprise was a technocrat was appointed as Minister of mining.

What I have picked up since he took over (pre-budget post cabinet):

- Political will to re-engage the international community is there.
- Cleared Pastor Evan Mawarire of all charges, he was the pastor behind the popular social movement #thisflag.
- Number of ministries trimmed down from 27 to 21.
- 3-month amnesty for return of externalized funds via Reserve Bank of Zimbabwe ('RBZ').
- Black market rates have appreciated and so has OMIR.
- People seem able to express views freely and openly.

Budget Key Takeaways:

- Clear acknowledgement that the current situation isn't sustainable.
- The budget definitely is investor friendly, using the right language, deliberately positioning themselves to align with IMF fiscal consolidation demands.
- GDP growth guidance of 3.7% for 2017 (SSA 2.6% 2017). Growth driven by:

a) Agriculture and Mining, anticipated to be up 15.9% (command agriculture led) and 7.5% respective.

b) As at end of October 2017, mineral export receipts were USD2bn compared to USD1.6bn in 2016(25% of export receipts).

c) Gold purchases were up 12% on 2016 to 17.1t and target is 24.5t (recently averaging 2t per month).

d) Manufacturing growth estimated at 1%, benefitting from improved agro processing value chains in foodstuffs, drinks, and ginning.

e) Imports USD6.8bn and Exports USD4.6bn, C/A deficit estimated at USD1bn, which seems a bit optimistic in my opinion.

f) Bank sector deposits up 17.1% from Dec 16 to USD7.6bn.

g) Bank sector loans up slightly from USD3.6bn to USD3.7bn.

h) The Finance minister acknowledged that there was no more room for domestic financing of the fiscal deficit by the banks and that additional monetary financing can only lead to inflation and economic deterioration. This has been obvious to us and clear in the RBZ monthly statistics.

Some key fiscal targets:

- Budget deficit target for 2018 is 4% and then they want to cap future deficits to 3%.
- Government will ensure total outstanding Public and Publicly Guaranteed Debt as a ratio of GDP should not exceed 70% at the end of any fiscal year.
- RBZ lending to the State at any time shall not exceed 20% of the previous year's Government revenues.
- Target to reduce Employment Costs/Revenue to 70% in 2018, 65% in 2019 and 60% by 2020.
- The freeze on recruitment.
- From January 2018 will retire staff above the age of 65.
- Diplomatic missions will be downsized – currently government is spending around USD65m to support them.
- Reviewing public enterprises, will privatise underperformers, 38 out of 93 public enterprises incurred a combined USD270m loss last year.
- Mentioned other cuts such as travel.

Other issues:

- The Indigenization and Empowerment Act will be amended, 51% threshold will apply only to diamond and platinum mining, rest of mining and other sectors exempt.

- BIPPAs will be honoured and where there was a violation government plans to arrange "amicable" settlements.
- Government is committed to compensate all farmers from whom land was taken as part of the Land Reform Program.
- Government is moving to undertake periodic land audits to identify issues of multi-farm ownership, idle land and under-utilization of land.
- During the period January to September 2017, Treasury issued Government instruments worth USD1.75 billion in the form of both Treasury bills and bonds, mentioned another USD940m of borrowing in last quarter of 2017, so number probably closer to USD2.7bn if not higher.

Some negatives that raised an eyebrow:

- The official inflation number (target CPI for 2017 is 1.1% and September CPI was 0.8%) is what they keep mentioning but no explicit mention of Money supply growth, M3 was 41.4% (end of September RBZ monthly report, creation of electronic dollars).
- They are keeping the 13th cheque payment for 2017 and in absolute terms it is bigger than 2016, 2016 was USD171m and 2017 is USD176m, this is contrary to the whole theme of lowering employment costs, but they probably didn't have a choice here.
- In absolute terms recurrent expenditure is actually increasing in their fiscal framework from USD4.5bn to USD4.6bn the gains from lower employment costs aren't trickling down.
- Some of the fiscal targets and GDP growth targets seem ambitious in the short term and I am not sure if they will be able to implement them.

Overall lots of positives in terms of saying the right things and setting out the right frameworks but the fiscal imbalances remain, the outcome of the IMF mission and response of IFIs will be vitally important. Announcing the budget is one thing and implementing it is another, we will be tracking closely for credibility.

Explicit mention of the need to interface the government payments system with mobile money platforms to enhance transparency and improve revenue collection, right now this is negligible but this could be massive for our mobile money play in Zimbabwe.