



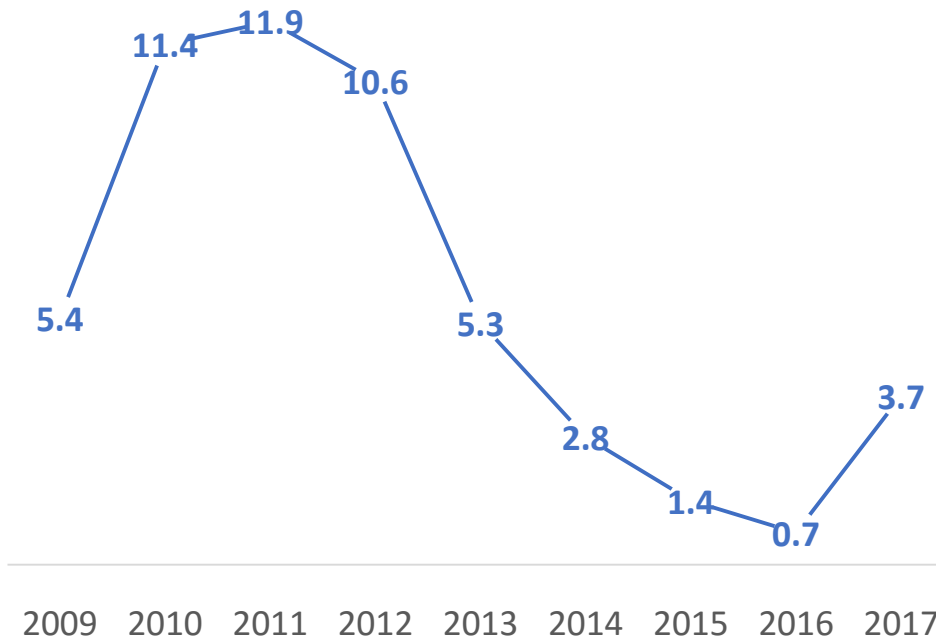
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# Economic Outlook

# Outline

- Economic developments
- Prospects for 2017 and the outlook
- Summary

# Real GDP growth rate (%)



- Cumulative growth from 2013 to 2016 = **10.5%**
- @ an annual average growth of 6% → **26.2%**
- 2017 proj: 2.7% - 3.7%

# Sources of slow growth ...

## Low production levels

- de-industrialisation
- rising informal & SME activities

## Depressed domestic aggregate demand

- low investment; and
- consumption

# Effects of low production

Effects	Implications for ...	
	Fiscal Position	BOP
Declining formal employment	Shrinking tax base	X
Low Local supplies	Shrinking tax base	Pressure to import
Exports	X	Low forex generation capacity
Net effect on LIQUIDITY	NEGATIVE	NEGATIVE

# Fiscal position

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# 2016 Expenditure Analysis

	<b>US\$M</b>	<b>% of Revenue</b>
Employment costs	3,210	<b>92%</b>
Operations & maintenance	605	<b>17%</b>
Interest	120	<b>3%</b>
Capital	968	<b>28%</b>
<b>Total</b>	<b>4,902</b>	<b>140%</b>
<b>Revenue</b>	<b>3,502</b>	<b>100%</b>

# Reconciling the budget overrun

	US\$M	US\$M	Remarks
Budgeted expenditure		4,000	Budgeted deficit = US\$498m
Actual expenditure		4,902	
Unbudgeted deficit		<b>(902)</b>	
<b>Utilisation of the funds</b>			
Support of recovery of agriculture	549		
Excess - operations & maintenance	220		
Capitalisation of SOEs	133		Cottco, Agribank, ZB Bank, POSB, IDBZ, SMEDCO
<b>Total</b>		<b>902</b>	



# Sectoral analysis of the wage bill

Sector	US\$M	%	Cum %
Education	915	42%	42%
Health	214	10%	51%
Agriculture	75	3%	55%
Rest of Service	993	45%	100%
<b>Total</b>	<b>2,197</b>	<b>100%</b>	

- Implications of this profile for Public Service Wage Bill management?

# Implications of a skewed budget structure

- Under-investment in infrastructure
- **Deficit financing**
  - Crowding out private sector investments
  - Liquidity challenges
- **Under-funded** social protection services, education & public healthcare

# Social service delivery - Healthcare

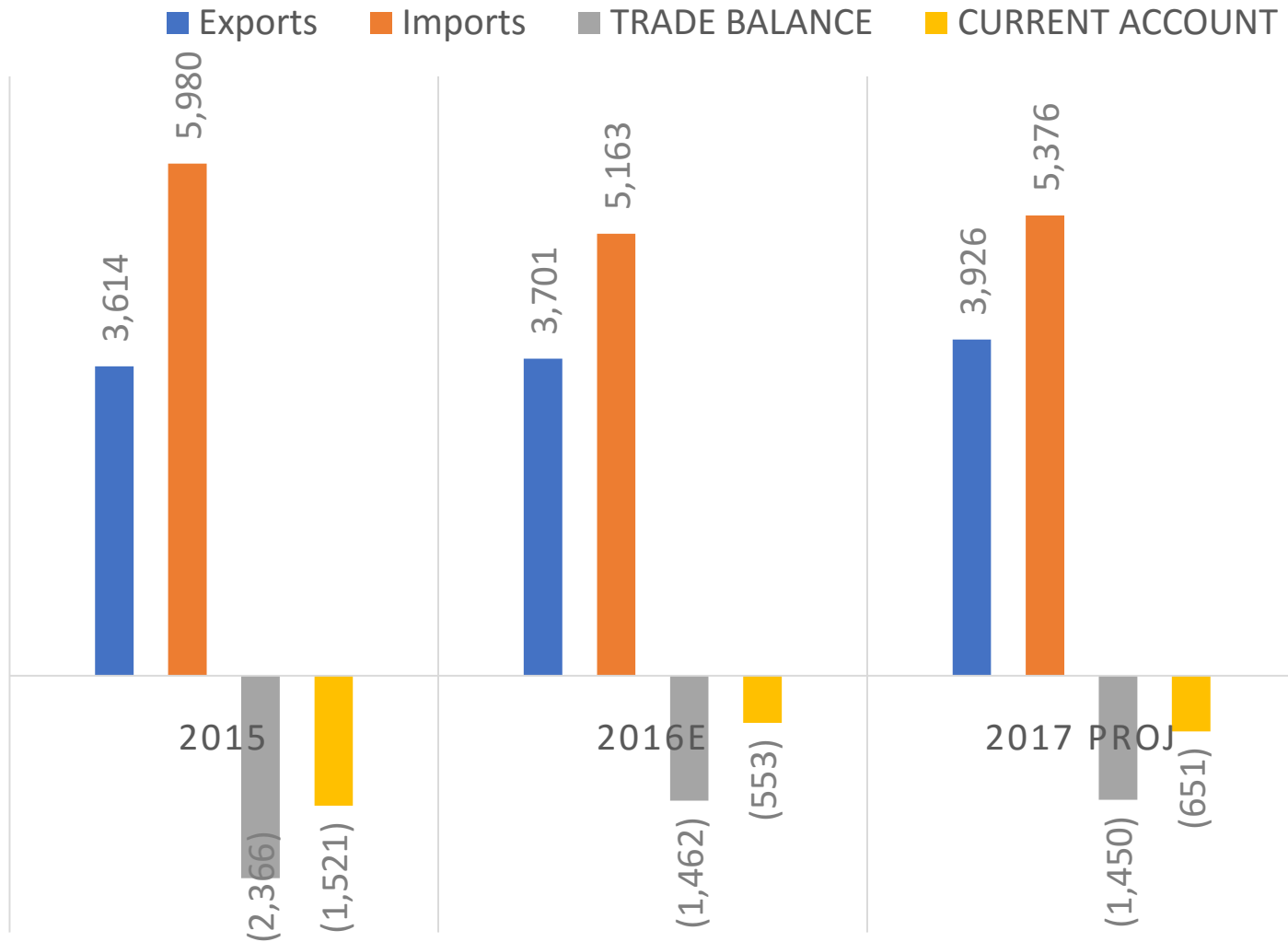
	US\$M	% of Revenue
Operations	22.7	<b>0.6%</b>
CAPEX	3.2	<b>0.1%</b>
Employment	214.3	<b>6.1%</b>
<b>Total</b>	<b>240.2</b>	<b>6.9%</b>
Fiscal Revenues	3,502	

- Health sector remains grossly under-funded
- Shortages of medical supplies
- Increased out of pocket expenditures

# **Balance of Payments Analysis**

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# Balance of payments



# Foreign currency receipts (US\$ M) as at 11 August

Receipt	2017	%	2016	%	% Change
Export proceeds	2,056	61%	1,864	55%	10%
International remittances	863	26%	946	28%	-9%
Loan proceeds	413	12%	390	12%	6%
Income proceeds	31	1%	130	4%	-76%
Foreign Investment	13	0%	43	1%	-70%
<b>Total</b>	<b>3,376</b>	<b>100%</b>	<b>3,374</b>	<b>100%</b>	<b>0.1%</b>

# Export performance by sector (US\$ M) as at 11 August

Sector	2017	%	2016	%	% Change
Mining	1,471	69%	1,140	63%	29%
Tobacco	356	17%	326	18%	9%
Agriculture	92	4%	88	5%	5%
Manufacturing	70	3%	73	4%	-4%
Others	138	6%	182	10%	-24%
<b>Total</b>	<b>2,128</b>	<b>100%</b>	<b>1,808</b>	<b>100%</b>	<b>17.7%</b>

# Foreign payments by sector (US\$ M) as at 11 August

Sector	2017	%	2016	%	% Change
Mining	293	10%	203	6%	44%
Agriculture	137	4%	109	3%	26%
Manufacturing	658	21%	669	21%	-2%
Retail & distribution	950	31%	1,057	33%	-10%
Services	974	32%	1,027	32%	-5%
Individuals	55	2%	156	5%	-64%
<b>Total</b>	<b>3,067</b>	<b>100%</b>	<b>3,221</b>	<b>100%</b>	<b>-5%</b>



## Main BOP observations ...

- Heavy dependency on commodity exports, minerals & tobacco (86%)
- Declining international remittances
- Low inward foreign investments

# Liquidity challenges

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# Which way to go on liquidity issues?

- Different views to date ...
  - Adopting the Rand;
  - Adopt the BN as the official currency??
- Need to understand the sources of the problem

# Addressing liquidity challenges

- RTGS vs NOSTRO Account Balances

- What is the problem?

  - local transactions?

  - financing of imports?

- Solutions to the problem

# Recap – Low production & liquidity challenges


Effects	Implications for ...	
	Fiscal Position	BOP
Declining formal employment	Shrinking tax base	X
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# Stock of Treasury Bills & Bonds as at 30 June 2017

Purpose	US\$ million	%
RBZ Legacy debt	827	33.1%
Capitalisation of SOEs	263	10.5%
Government programmes including drought related expenditures	531	21.2%
ZAMCO	568	22.7%
Government recurrent expenditure	312	12.5%
<b>Total</b>	<b>2,501</b>	<b>100.0%</b>

# Current stock of money in circulation as at 30 June 2017

Form of money	Money in circulation (US\$ million)	RTGS (US\$ million)	Deposits (M2) US\$ million
Bond coins	25		
Bond notes	175		
Multicurrencies	800		
<b>Total</b>	<b>1,000</b>	<b>1,600</b>	<b>6,200</b>
Current stock of cash in circulation as a % of		62.5%	<b>16.1%</b>
International benchmark			<b>10%</b>

-  Inefficient circulation of cash → possible cash hoarding and/or leakages

# Addressing liquidity challenges

- **Raise production**
- Address the **fiscal account position**
- Improve NOSTRO position – generation of exports & US\$600 million NOSTRO Stabilisation Fund
- Promote market confidence → improve circulation



# **Prospects for 2017 & Outlook**

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# Context

- MULTICURRENCY system
- No seignorage – Monetary Policy is limited
- External arrears – limited access to international lines of credit

# Investment Promotion

- **Fiscal and financial support** to various economic sectors
- Cost and ease of doing business reforms
- Support to SMEs – local content policy & anchor financing models

# Investment Promotion – Inward foreign investment & access to international lines of credit

- Remain low due to the country's external debt arrears
- International re-engagement
- Operationalisation of Special Economic Zones (SEZs)

# Addressing fiscal deficits ...

- Effective cost management
- Promoting effective **Domestic Resource Mobilisation** efforts:
  - Domestic savings mobilisation; and
  - Tax revenues.

# Domestic Resource Mobilisation



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smuggling,  
tax evasion  
or acts of  
economic  
malfeasance

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# Addressing balance of payments position

- Managed foreign exchange allocation system
- Promoting exports & diversification
- Curbing non-essential imports

# RBZ export, productive & empowerment facilities

Facility	US\$ million
Export Finance	70
Tourism Support	15
Youth Empowerment Fund	10
People with Disabilities Fund	5
Cross Border	15
Gold Support	40
Business Linkages	10
Horticulture	10
Women Empowerment Fund	15
<b>Total</b>	<b>190</b>



# Economic growth rates

	<b>2016</b>	<b>2017 Proj</b>
Agriculture	-3.6%	21.6%
Mining	8.2%	5.1%
Manufacturing	0.3%	0.1%
Health	0.3%	0.1%
Real GDP growth	0.7%	3.7%

# Key Success Factors

- Restoring investor confidence
- Policy consistency, clarity and predictability
- Effective implementation of policies
- Access to international credit

# **Implications for the Health Sector**

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# Conclusions from the analysis ...

- Liquidity challenges to negatively affect operations
- Declining formal employment - growing informal & SME sectors – implications for the business models?
- Underfunded public health sector

**Thank you, but ...**

I am obliged to take...

