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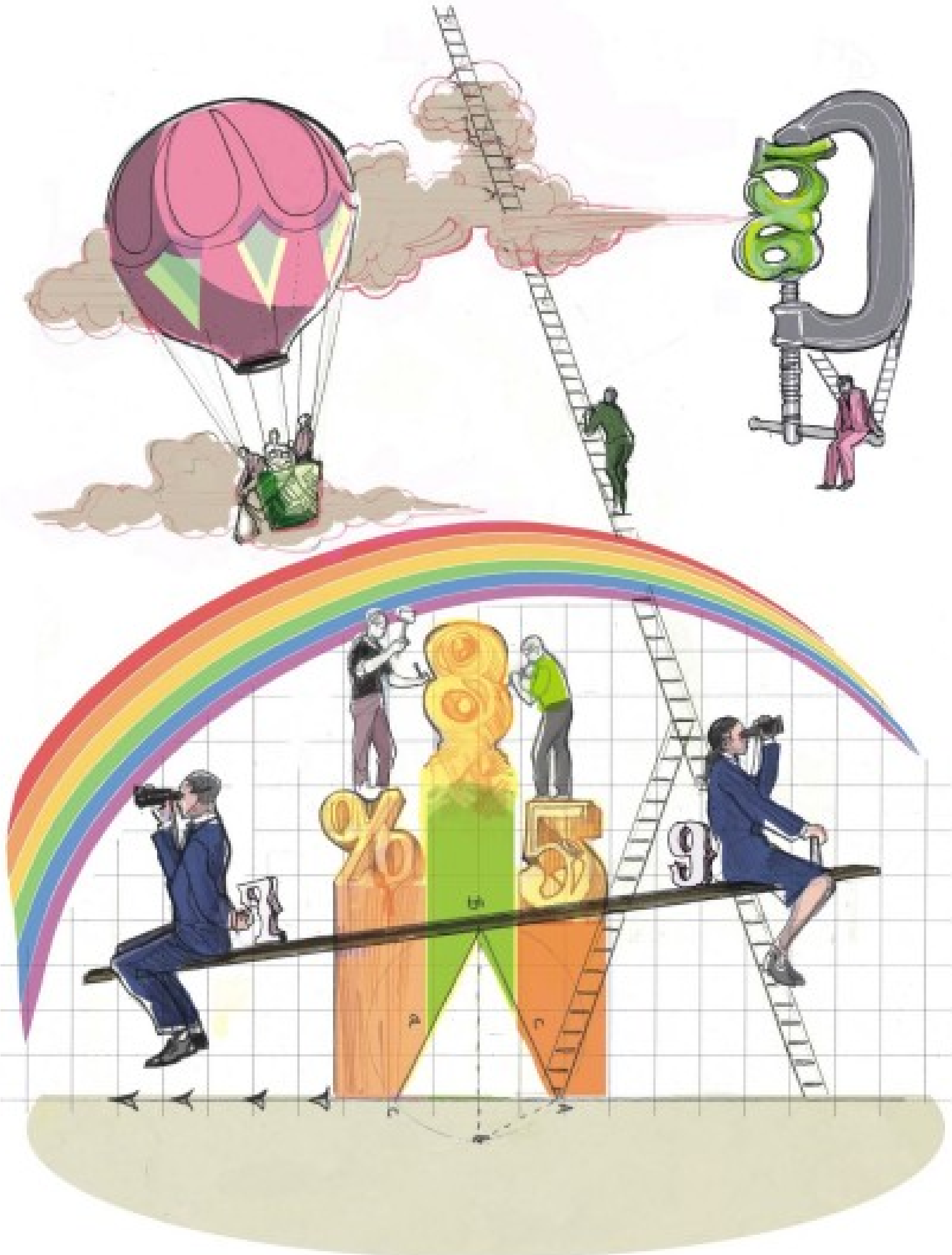
Zimbabwe Mid-Term Budget 2012:

"From Crisis to Austerity: Getting Back to Basics"



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Introduction

The thrust of the mid-term policy statement themed "From Crisis to Austerity: Getting Back to Basics" was to review the 2012 national budget.

The 2012 Budget has been systematically devalued by a number of downside risks, which include the following:

- A poor rain season;
- Policy inconsistencies and uncertainties undermining investor confidence;
- Lack of capital and alternative financing instruments;
- Revenue under-performance against a high and unsustainable wage bill;
- Limited implementation and monitoring capacity;
- Slow pace of reforms;
- Corruption; and
- Volatile global financial environment.

The impact of the above downside risk factors over the 2012 Budget assumptions is potentially drawing back the recovery agenda. This is indicated by the depressing economic out-turn during the first half of 2012.

The economy is now expected to grow by 5.6% against the projected 9.4%. This falls short of the Medium Term Policy (MTP) annual average target of 7.1%.

This Review Statement focuses on the following issues:

- Supporting production and enhancing competitiveness in the main sectors of the economy;
- Promoting savings and investment;
- Mobilising additional revenues;
- Expenditure management and re-focusing funds towards strategic areas;
- Pursuing a number of legislative and administrative reforms;
- Addressing financial sector vulnerabilities;
- Implementation of the Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS) and the Zimbabwe Accelerated Re-engagement Economic Programme (ZAREP) to resolve the debt issue; and
- Managing the current account balance.

Sectoral analysis

Agriculture drops to -5.8%

Agriculture shed 13.2% and is now set to decline to -5.8%. Crops which declined in output included maize, tobacco, wheat, sorghum, soya beans and ground nuts.

Outlook

Preparations for the 2012/13 agricultural season will focus on timely supply of inputs, financing, enhancing productivity and clarity on marketing arrangements. Outstanding issues on the land tenure need to be resolved to facilitate financing of agriculture and its recovery to a projected growth of 13.7% in 2013.

Financing

Government commits to the following:

- Payment of outstanding arrears to farmers for grain deliveries;
- Enforcing recoveries from inputs beneficiaries;
- Mobilising funding in conjunction with co-operating partners;
- Availing the budgeted funding for livestock development; and
- Working with the banking sector and other private sector players to put in place various market based instruments and schemes to meet the balance of the total required resources.

USD2 million has been allocated for the surveying of A2 farm sub-divisions.

Mining contribution rises

Mining contribution to the economy almost trebled from 4% between 1999 and 2008 to current levels of close to 11% of GDP.

The sector also contributes over 50% of total export earnings and 45 000 formal jobs.

Mines and Minerals Act Amendment

Government remains committed to concluding the amendments to the Minerals and Minerals Act by the end of the year.

Distressed and Closed Mines

Government is committed to resuscitating closed and distressed mines throughout the country. Government accorded Bindura Nickel Corporation National Project Status and, accordingly, extended fiscal incentives.

Accordingly, the targeting of the following minerals for beneficiation and value addition will be time-framed and implemented under a Comprehensive Strategy and Programme:

- Diamonds polishing and cutting;
- Gold refining;
- Platinum refining;
- Ferro-Chrome production;
- Black Granite cutting and polishing, and
- Steel making.

Minerals Valuation

Government will establish an exploration company (Zimbabwe Exploration Company) to undertake the valuation and securitisation of the mineral reserves in the country.

The SME sector will be monitored to improve transparency and accountability. The issuance of gold permits will be aligned to gold deliveries to Fidelity Printers.

Manufacturing maintains growth

The manufacturing sector growth rate is estimated to remain at 6% in 2012.

The overall capacity utilisation for 2012 is projected at over 60%.

Government, through the Ministry of Industry and International Trade, in cooperation with business through CZI, ZNCC and the NECF, will resuscitate industrial clusters as part of implementing the Industry Development and National Trade Policies.

Tourism continues to improve

There have been improvements in investment, arrivals, revenues and employment related to tourism.

During the first half of 2012, tourist arrivals are expected to have improved by 7.5% from 657 302 in 2011 to 688 288.

The majority of visitors were from the African region comprising of 89%, followed by high spending European markets.

Bed occupancy rate slightly improved from 30% in 2011 to 31% in 2012.

Tourism receipts are expected to increase by 11.2% to USD736 million.

Government in conjunction with the UNWTO is working on the establishment of a Tourism Satellite Accounting System.

In 2012, the sector is projected to grow by 10.4% up from 4% in 2011. Areas requiring further attention include:

- Preparations for the 20th Session of the UNWTO in 2013;
- Fiscal incentives for the tourism sector;
- Resuscitation of reliable domestic flights;
- Removal of congestion at the border posts; and
- Upgrading of the road network and other tourism infrastructure facilities.

Government, in consultation with all relevant local partners is formulating the National Tourism Policy and the fifteen years Zimbabwe Tourism Master Plan to promote domestic and regional tourism.

Indigenisation regulations

The Zimbabwe Investment Authority Act with the Indigenisation and Empowerment Regulations will be rationalised to address investors' concerns and attract meaningful investment.

Small to Medium Enterprises

Government is committed to supporting SMEs through the following measures:

- Improving the regulatory environment;
- Access to finance;
- Capacity building initiatives;
- Provision of infrastructure; and
- Market development and access.

Women and youths

Women and youth capacitating and empowering programmes will be prioritised and this will be anchored on:

- improving access to credit through establishing microfinance programmes; and
- providing adequate training and education on the importance of saving.

Infrastructure

Energy and power generation

To improve electricity generation, transmission and distribution, the following projects are being implemented:

- Hwange Thermal Power Station (HPS);
- Kariba South Hydro Power Station;
- Small Thermal Power Stations; and
- Electricity Expansion Projects (Hwange (7 & 8) and Kariba South).

Rural Electrification

An amount of USD1.5 million has been disbursed towards grid extension projects in rural areas.

Transport

The following initiatives have been undertaken:

- Dualisation of road networks
- Airport rehabilitation
- Upgrade of rail network

Information, communication and technology (ICT)

The tele-density rate is expected to improve from 68% in 2011 to 79% by December 2012.

International penetration levels are at 26.6% while regional levels are at 11%.

Water and sanitisation

USD21.6 million has been disbursed towards key projects under implementation which include:

- Construction of Tokwe-Mukorsi and Mutange Dams,
- Rehabilitation and upgrading of water and sewer infrastructure in urban settlements; and
- The rural water and sanitation programme.

In support of water and sewer rehabilitation e government has so far contributed USD53.8 million in support of infrastructure rehabilitation to local authorities.

Rural water and sanitation programme

An amount of USD1 million was disbursed to DDF for the drilling and rehabilitation of boreholes.

Education

The funding of educational programmes will have to be ring-fenced, targeting:

- educational infrastructure,
- modernising curriculum,
- staffing levels,
- monitoring and supervision,
- capacity building,
- provision of equipment and,
- learning materials.

Health Care
The Government shall continue to ring fence limited cash flows to finance critical programs and projects such as procurement of radiotherapy equipment and refurbishment of mission hospitals.

State Procurement
Government is reviewing and amending the State Procurement Act.

Financial sector
The financial sector is projected to grow by 23%.

Bank capitalisation

- As at the end of June 2012 most financial institutions had met the minimum capital requirements.
- Royal Bank, Genesis Investment Bank and Interfin Bank were the only exceptions.
- Non-performing loans increased from 7.5% in 2011 to 9.9% in June 2012. This is against the internationally accepted Basel 11 threshold of 5%.

Bank deposits

- Deposits grew by an average of about 3% on a month by month basis.
- 60% of all deposits were held in four of the 25 banks of the country.

The mining sector continues to contribute the least to bank deposits contributing only 3%.

Loans and advances increased by 39% from USD2.74 billion in January to USD3.029 billion by May 2012.

Deposit rates

Interest rates on deposits for the first three months were low with savings rates averaging about 2.65% per annum. Interest on one month deposits was 10.7% per annum whilst interest on three month deposits was 12.4% per annum.

In April interest marginally increased to an average of 3.4% per annum on savings, whilst interest on one month deposits increased to 12.6% per annum and interest on three month deposits increased to 13.2% per annum.

Lending rates

Lending rates softened from an average of 13.6% per annum to 9.5% per annum and 19.7% per annum to 15.2% per annum for commercial and merchant banks respectively.

Zimbabwe Stock Exchange

The industrial index declined from 144.7 in January to 129.5 in April. The index improved to 132.03 in May and then weakened to 131 in June.

The mining index opened at 79.09, improved to 97.15 in April and slid to 75.7 in June.

Market capitalisation lost about 4.25% between January and June 2012 to close at USD3.3 billion.

Lender of last resort

Government has approved the establishment of a USD150 million lender of last resort fund under which private investors are expected to contribute about USD120 million.

Inflation remains stable

Inflation has remained within the 2012 target of 5%. Annual inflation decreased from 4.3% to 3.9%.

Month-on-month inflation declined from 5% in January to 0.1% in May 2012. In June there was a marginal increase of 0.2%.

Food inflation opened the period at 4.05% and closed at 4.6% in May. Annual non-food inflation declined from 4.1% in January to 3.8% May.

Exchange rate and inflation fluctuations in South Africa continue to have an impact on the Zimbabwean economy since it contributes most of its imports.

Balance of payments

Exports

Total export shipments for the period January to June 2012 increased by 45% to USD1.6 billion. Mineral exports contributed USD1.16 billion which is 73% of total exports. Exports continue to be mainly unprocessed raw products.

Imports

Imports were mainly machinery and equipment (41%), fuel and gas (24%), and food and beverages (20%).
Merchandise imports amounted to USD2.6 billion for the period under review and are projected to reach USD8.2 billion by end of the year.

Main sources of imports were South Africa and United Kingdom contributing 43% and 16% respectively.
China, Kuwait and Zambia contributed 6% each.

The trade deficit is projected to reach USD2.8 billion, from the total exports of USD5.1 billion against imports of USD8.2 billion.

Capital inflows continue to underperform.

The low foreign direct investment inflows indicate the high risk premium on the country which is also reflected through the Doing Business Index, which ranks Zimbabwe 171 out of 183 countries.

The external position remains unsustainable with a current account deficit estimated at 20% of GDP.

Public finances

Revenues
Monthly revenue collections were below target throughout the first half of the year.

Major revenue sources during the period under review included Value Added Tax (31%), Pay As You Earn (19%), Excise duty (11%), Corporate Income Tax (11%) and Customs Duty (10%).

The cumulative revenue shortfall stood at USD244.2 million as at June 2012. A large portion of the shortfall was a result of diamond dividends deficit amounting to USD229.3 million.

Expenditures
Cumulative expenditure amounted to USD1.565 billion against planned expenditure of USD1.838 billion for the six months.

Operations and Maintenance
Non-Wage Recurrent Expenditures comprising operational and maintenance costs, was USD217.9 million against a budget of USD410.9 million for the six months.

Important budget programmes that have failed to take off on account of limited funding include:

- Maternal and child health care programme;
- Apprenticeship and internship scheme;
- Student Grant and Loan Scheme; and
- Provision of teaching and learning materials.

Non-Wage Budget Support
Non-wage budget support to line ministries over the first half of the year constituted about 24% of the total non-wage budget provision of about USD1.614 billion.

Capital Expenditure
Capital disbursements to end of June 2012 amounted to USD204 million against a target of USD386.9 million.

Employment Costs
The employment cost bill for the period January to June 2012 amounted to USD1.167 billion against planned expenditure of USD1.073 billion.
The wage bill consumed 70% of its original budget allocation and incurred an overrun of USD94 million.
The wage bill, which was originally targeted at 57% of the total budget, is expected to reach 73%, by year end.

Revenue measures

Redrafting of the Income tax Act
The Income Tax Bill has been approved by cabinet and awaits gazetting.

Fiscalisation
66% of VAT registered operators in Category C have fully fiscalised their operations.
6% are at various stages of fiscalisation while
28% are yet to commence the fiscalised process.
It has been proposed, with effect from 1 August 2012, that where an approved supplier of fiscal registers fails to deliver the devices within a period of 6 weeks, penalty provisions applicable to registered operators will apply on the supplier.
ZIMRA will set up a platform to receive information from fiscalised devices by 1 October 2012 with significant progress having been made in the acquisition and installation of equipment and software.

All registered operators including those in Categories A, B and D whose annual turnover exceeds USD240 000, will be obliged to use VAT fiscalised electronic tax registers with effect from 1 November 2012.

It has been proposed that fiscal tax invoices be incorporated in the VAT legislation and be accepted as valid tax invoices.

Customs and Excise duty

It has been proposed that Customs duty on wheat flour be increased from 5% to 20% with effect from 1 August 2012.

However, the baking industry will continue to import 25% or 3000 metric tonnes per month of their wheat flour at 5% duty.

Surtax on carbon-dioxide compliant commercial refrigeration and coolers will be removed with effect from 1 August 2012.

With effect from 1 August 2012, there will be a suspension of duty on imported raw materials used by approved manufacturers in the production of sanitary wear, provided that such raw materials are not locally produced.

It has been proposed to increase excise duty on diesel from 16cents to 20cents per litre while petrol will increase from 20cents to 25cents per litre.

VAT

With effect from 1 August 2012 the following products and services will be zero rated:

- Domestic electricity
- Soya beans
- Seed cotton
- White sugar

Transparency and Accountability on Minerals Resources

With effect from 1 September 2012, ZIMRA personnel will be physically present at mining locations to facilitate monitoring of mining processes.

The current mining fee structure is under review, with an announcement of a new fee structure expected shortly.

To curb revenue leaks, ZIMRA systems at ports of entry will be strengthened through automation, post clearance audits and risk management.

General Freeze on Recruitment

Government will maintain a general freeze on the recruitment of staff into the Public Service.

Any critical areas warranting new recruitments will be subject to Treasury concurrence in consultation with the respective Public Service Commissions.

Foreign Travel

Expenditures on foreign travel remain disproportionate to expenditures on essential services.

Domestic Arrears

Debts and arrears to service providers reached USD179 million by end of June 2012, which is above the budgeted USD51.4 million.

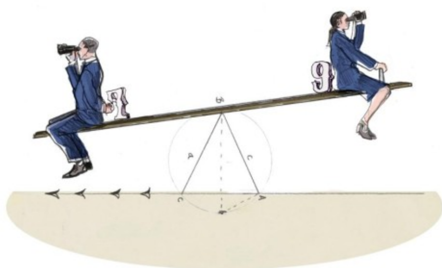
Diplomatic Missions

The 2012 budget appropriated USD10 million toward the settlement of arrears to foreign service personnel which stood at USD24 million at the end of 2011.

Treasury will be making direct monthly disbursements to foreign missions in order to reduce arrears.

Inter-Parastatal Debt

In order to assist in reducing local authorities and inter-parastatal net indebtedness, clearance of these arrears will be directed by Government on a set-off basis, with payment being made to the net local authority/parastatal creditor.



About us

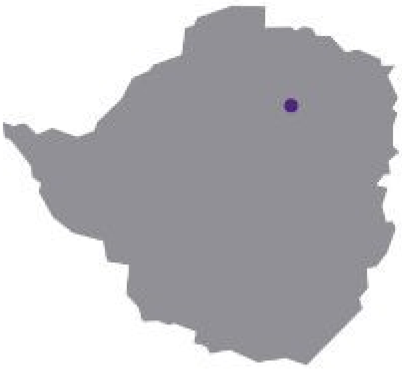
Zimbabwe

Who we are

Grant Thornton Camelsa was established in 1996. The firm excels in the professional services that it offers and is one of the fastest growing firms in Zimbabwe.

It offers the traditional audit, accounting and tax practice services and a broad range of advisory services to privately held businesses, public interest companies and the public sector.

Where we are



Our offices are located in Highlands, Harare. We work closely with the sub Saharan region network firms of Grant Thornton situated in Botswana, Guinea, Kenya, Mauritius, Mozambique, Namibia, South Africa, Uganda and Zambia. This means we can offer our clients access to services from around the network to establish and grow their business in the region and beyond.

How we work

Our unique position as a firm is that our size enables us to provide personalised services with hands-on involvement at partner level on assignments.

Our success is attributed to the professional experience and skills of our partners, consultants, managers and supporting staff who consistently ensure that the highest standard of service is delivered at all times and in an ethical manner.

Fast figures

	Zimbabwe	Global
Partners + Directors	9	Over 2,600
Personnel	89	Approx 31,000
Offices	1	Approx 530

What we do

We provide a range of services including:

Assurance

- audit
- information technology certification
- other assurance services.

Tax

- capital gains tax
- tax health check
- corporate income tax
- customs and excise
- employee tax
- expatriate services
- international income tax
- personal income tax
- value added tax
- tax advisory/planning services.

Advisory

- accounting and financial advisory
- transaction advisory services
- forensic accounting and investigations
- corporate governance
- due diligence
- valuations
- business disposals
- trusts and estates.
- internal audit and risk management services
- corporate recovery and reorganisation.

Other services

Company secretarial services

- statutory and company secretarial compliance and consulting
- incorporation of companies
- family business consulting
- corporate benefits and wealth management.

Information Technology

- IT Audit
- project management
- IT due diligence
- penetration testing
- vulnerability

Human Resources

- recruitment
- training
- human resources audit
- industrial relations consulting
- performance management and improvement systems

What we have to say

Grant Thornton Camelsa works closely with member firms of Grant Thornton around the world as part of a cohesive global organisation to provide distinctive client service. Our team comprises of world class business advisors whom our clients can identify with.

Reggie Saruchera
Managing Partner

"As one of the leading firms in Zimbabwe, we are continually inspired to anticipate changes in the environment and adjust strategies to seek out new opportunities".

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