ZIMBABWE

BUDGET STRATEGY PAPER: 2023

‘Accelerating Economic Transformation’

MINISTER OF FINANCE AND ECONOMIC DEVELOPMENT

TREASURY

Harare

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CONTENTS

INTRODUCTION

1. The 2023 Budget Strategy Paper (BSP) is a strategic policy document that outlines the forthcoming proposed budget priorities after taking into account the macroeconomic conditions in the country. It is meant to improve transparency in the preparation of the National Budget and forms the basis for a detailed budget preparation process that will culminate in the presentation and approval of the 2023 Budget by Parliament later on in the year.

2. The BSP will facilitate public, stakeholder and Parliamentary consultations and engagements on the policy priorities of the 2023 National Budget in order to respond to a difficult global and domestic economic environment.

3. The 2023 Budget will mark the mid-point in the implementation of NDS1[1] and should allow stakeholders to review progress whilst giving the impetus required to attain policy objectives in pursuit of the country's Vision of an *Upper Middle-Income Economy by 2030*. Deepening policy reforms is critical so as to entrench the current economic transformation trajectory achieved through implementation of the Transitional Stabilisation Programme (TSP) and National Development Strategy 1: 2021-2025 (NDS1).

4. Countries across the globe face rising commodity prices and inflation, disruptions to world trade and tightening financial conditions mainly as a result of the COVID-19 pandemic and the ongoing Ukraine/Russia

1 Update on NDS1 Key Performance Indicators is contained in the Annex

conflict. Resultantly, all nations have been forced to make difficult policy tradeoffs in order to cope with adversity, attain macro-economic stability whilst also supporting economic recovery and growth.

5. Higher international prices of energy, food, and other critical commodity markets are causing instability and inflation through their pass-through effects on the domestic economy. The required policy responses, particularly with regards to domestic inflation and exchange rate volatility has been made much more difficult by the peculiarities of the domestic economy, characterized by sub-optimal production, the multicurrency regime, absence of international finance and the dual economy.

6. The past four years have witnessed positive transformation and structural changes across sectors such as agriculture, mining and infrastructure, among others, providing a strong foundation on which to build on going forward. The identified actions in this Strategy Paper seek to reshape and rebalance the economy in order to achieve higher and more equitable growth.

7. Implementation of identified policy interventions will support the positive economic growth trajectory experienced to date and expand the country's productive capacity, accelerate economic transformation, and build the resilience of the economy against adverse external shocks, hence the theme '*Accelerating Economic Transformation*'.

8. Whilst the BSP provides a snapshot of proposed key issues for consideration during a given fiscal year, the subsequent annual Budget Statement and Estimates will provide more elaborate details of these issues, taking account of input from all stakeholders.

THE 2023 MACRO-ECONOMIC FRAMEWORK AND ASSUMPTIONS

9. Consistent with the National Development Strategy 1: 2021-2025 (NDS1), the country's macro-economic objectives remain anchored on economic stability, recovery and equitable growth in the face of domestic and external shocks which continue to undermine socio-economic transformation and development of the country as well as achievement of Sustainable Development Goals (SDGs).

10. Going forward, priority will be to restore market confidence as well as achieve exchange rate and inflation stability. In this regard, the 2023 Macro-Fiscal Framework and policy reforms will focus on sustainable fiscal management, supportive monetary policy measures, addressing structural bottlenecks whilst also sustaining external sector balance.

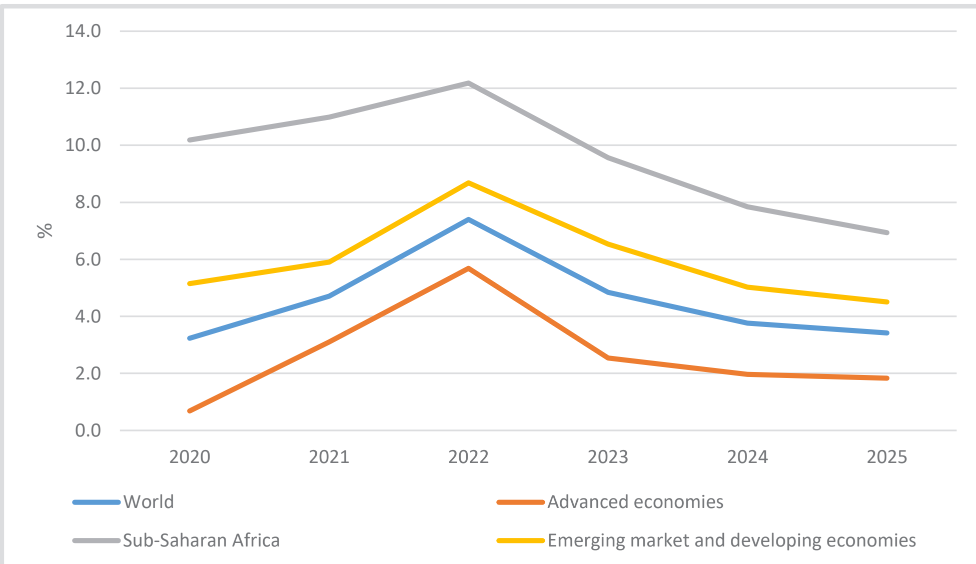
GLOBAL ECONOMIC OUTLOOK AND RISKS

11. Three years into COVID-19 and the ongoing global tensions, the world economy is facing a sharp increase in commodity prices and supply disruptions that have led to significant increase in global inflation and heightened uncertainty about prospects of recovery for the global economy.

12. The *IMF World Economic Outlook Forecast for* April 2022 projects global growth at 3.6% for both 2022 and 2023, 0.8% and 0.2% points lower than the January forecast, respectively. The downgrade largely reflects the direct impacts of global tensions and global spillovers, the emergence of the COVID-19 omicron variant particularly in China and monkeypox, all of which have the potential of disrupting production and trade.

13. Inflation has become a central cause of concern worldwide, reaching its highest level in more than 40 years for some advanced economies, particularly for the United States and some European countries. Whilst demand has recovered rapidly in the aftermath of the COVID 19 pandemic, bottlenecks have held back supply, including factory closures; restrictions at ports; congested shipping lanes; container shortfalls, and worker shortages because of quarantines.

Figure 1: Global Inflation



Source: IMF World Economic Outlook (April 2022)

14. For emerging market and developing economies, increase in food and fuel prices as well as rises in interest rates could result in further withdrawal of capital and currency depreciations that increase inflation pressures.

15. The economic growth of the United States and the Eurozone are expected to be 3.7% and 2.9%, respectively, and China's economic growth is expected to be 4.4% in 2022. Slowing growth in China's economy has wider ramifications for commodity exporters.

Table 1: Global Growth Estimates and Projections, 2021 to 2025

	2020	2021 est	2022 Prj	2023 Prj	2024 Prj	2025 Prj
World	-3.1	6.1	3.6	3.6	3.4	3.4
Advanced economies	-4.5	5.2	3.3	2.4	1.7	1.7
United Kingdom	-9.3	7.4	3.7	1.2	1.5	2.2
United States	-3.4	5.7	3.7	2.3	1.4	1.7
European Union	-5.9	5.4	2.9	2.5	2.1	1.9
Emerging market	-2.0	6.8	3.8	4.4	4.6	4.5
China	2.2	8.1	4.4	5.1	5.1	5.0
India	-6.6	8.9	8.2	6.9	7.0	7.0
Sub-Saharan Africa	-1.7	4.5	3.8	4.0	4.2	4.2
Nigeria	-1.8	3.6	3.4	3.1	2.9	2.9

Source: IMF

16. Also supporting this downgrade is the World Bank's J*une 2022 Global Economic Prospects*, which projects global growth to slow sharply from 5.7% in 2021 to 2.9 % this year, mainly due to the surge in energy and food prices, along with the supply and trade disruptions triggered by global tensions and the necessary interest rate adjustments now underway.

Sub-Saharan Africa

17. Economic recovery in sub-Saharan Africa, projected at 4.5% in 2021, is expected to slow down to 3.8% during 2022, before accelerating to 4% during 2023. The region's recovery will be supported by elevated commodity prices, gradual recovery in tourism, with vaccinations in some tourism-reliant economies already proceeding at a much faster pace than in the rest of the region.

Table 2: Sub-Sahara African Economies GDP Growth (%)

	2021	2022	2023
Sub-Saharan	*4.5*	*3.8*	*4.0*
Fuel Exporters	*2.9*	*3.4*	*3.1*
Nigeria	*3.6*	*3.4*	*3.1*
Emerging Market & Middle-Income Economies	*6.8*	*3.8*	*4.4*
South Africa	*4.9*	*1.9*	*1.4*
Low Income Countries	*5.6*	*4.8*	*5.6*
Ethiopia	*6.3*	*3.8*	*5.7*
Zambia	*4.3*	*3.1*	*3.6*

Sources: IMF World Economic Outlook (April 2022)

18. The impact of the global tensions is, however, likely to impact on the region's growth prospects through the food, fuel and fertiliser channels. Higher food prices will hurt consumers' purchasing power, particularly among low-income households and will weigh on domestic demand whilst also straining the external and fiscal balances of commodity-importing countries.

19. This shock, when combined with the COVID-19 pandemic's social and economic legacy and climate change are compounding policy challenges for the region and attainment of Sustainable Development Goals.

20. The region is highly exposed to climate-related shocks, such as droughts, storms, and floods which are becoming more frequent and more severe and have a particular impact on the region's growth prospects. Furthermore, the pandemic has worsened most countries' fiscal position, pushing public debt to its highest level since the beginning of the century.

Southern African Region

21. The SADC real GDP growth is projected to decelerate to 3.1% in 2022 from a recovery of 4.4% experienced in 2021. South Africa, a major economy in the region, is projected to grow by 1.9% and 1.4% in 2022 and 2023, lifted by growth in trade, tourism, mining and manufacturing, although electricity supply constraints and underperforming state-owned enterprises may weigh down growth.

22. Angola's growth is expected to accelerate to 3% in 2022, with non-oil sectors of agriculture, construction, and transportation being the main drivers of growth. In the medium-term, growth is expected to reach 4% driven by high oil prices and the strong performance of non-oil sectors.

Table 3: Selected SADC Countries GDP Growth Projections

	2020	2021 est	2022 Prj	2023 Prj	2024 Prj	2025 Prj
Angola	-5.6	0.7	3.0	3.3	3.8	4.0
Botswana	-8.7	12.5	4.3	4.2	4.0	4.0
Malawi	0.9	2.2	2.7	4.3	4.9	6.1
Mauritius	-14.9	3.9	6.1	5.6	4.1	3.3
Mozambique	-1.2	2.2	3.8	5.0	8.3	5.1
Namibia	-8.5	0.9	2.8	3.7	2.4	2.5
South Africa	-6.4	4.9	1.9	1.4	1.4	1.4
Zambia	-2.8	4.3	3.1	3.6	4.0	4.2

Source: IMF World Economic Outlook (April 2022)

International Commodity Prices

23. The global tensions have caused major supply disruptions and led to historically higher prices for most commodities and significantly higher in 2022 than in 2021 whilst remaining high in the medium term. The price of Brent crude oil is projected to average $100/bbl in 2022, a 42% increase from 2021 and its highest level since 2013.

Table 4: International Commodity Price Indices Forecasts

	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.
Energy	52.7	95.4	143.6	125.6	110.8	110.8
Non-energy commodities	84.4	112	133.5	121.7	117.8	117.8
Agriculture	87.5	108.7	127.9	118	117.8	117.8
Beverages	80.4	93.5	103.5	99.7	100.2	110.2
Food	93.1	121.8	149.7	134.2	133.5	133.5
Oils and Meals	*89.8*	*127.1*	*164.9*	*141.9*	*140.6*	*140.6*
Grains	*95.3*	*123.8*	*149*	*133.6*	*132.6*	*132.6*
Other food	*95.5*	*113.1*	*130.3*	*124.8*	*125.1*	*125.1*
Raw materials	**77.6**	**84.5**	**87.2**	**87.9**	**88.4**	**88.4**
Fertilizers	**73.2**	**132.2**	**223.7**	**198.3**	**168.5**	**168.5**
Metals and minerals	**79.1**	**116.4**	**134.8**	**120.6**	**112.1**	**112.1**
Base Metals	**80.2**	**117.7**	**143.9**	**131.9**	**123.8**	**123.8**
Precious Metals	**133.5**	**140.2**	**144.4**	**131.5**	**127**	**127**

Source: World Bank Commodity Markets Outlook; April 2022 Pink Sheet Data

24. Non-energy prices are expected to rise by about 20% in 2022, with the largest increases in commodities where Russia or Ukraine are key exporters. Wheat prices, in particular, are forecast to increase by more than 40% this year, reaching an all-time high in nominal terms.

25. While prices are generally expected to peak in 2022, depending on the duration of the conflict in Ukraine and the severity of disruptions to commodity flows, prices are projected to slightly retreat in 2023 but maintained relatively higher than the 2021 levels. The international

commodity price outlook is favorable for commodity driven economies like Zimbabwe although this could be counterbalanced by high import bills for crude oil and food items such as maize and wheat.

Domestic Economic Outlook and Risks

Economic Growth

26. Notwithstanding global and domestic shocks, all the key productive sectors of the economy have witnessed increased economic activity which should result in the economy registering another positive growth this year. However, the domestic economic performance continues to be weighed down by developments in the external environment, particularly the Russia/Ukraine conflict, uncertainty and impact of COVID-19 pandemic and climate change.

27. The economy is now projected to grow by 4.6% during 2022, a downward revision from the original 5.5% projection, and follows an estimated 7.8% positive growth trajectory for 2021. This positive 2022 growth projection is supported by increased activity in all the productive sectors except agriculture that was weighed down by the unfavourable 2021/22 rainfall season and high input costs.

28. Maintaining the current positive economic growth trajectory will be critical in addressing key policy objectives such as poverty reduction and job creation, achievement of SDGs and other socio-economic development targets.

29. In the outlook, the economy is projected to continue on the growth trajectory, with an expected growth of 5% during 2023. This growth is expected to benefit from the favourable international commodity prices, stable macroeconomic environment and improved production in all sectors of the economy.

Table 5: GDP Growth (%) 2022-2025

	2020	2021 est	2022 Prj	2023 Prj	2024 Prj	2025 Prj
Agriculture	4.2	33.6	-5.0	6.7	6.3	5.1
Mining and quarrying	-9.0	5.5	9.5	6.2	6.0	5.6
Manufacturing	-3.2	5.5	3.6	3.7	4.2	5.0
Electricity	-16.5	34.3	12.2	5.2	4.6	3.9
Water supply	8.8	7.8	4.7	8.7	5.4	5.1
Construction	2.5	7.2	10.5	5.8	5.0	4.0
Wholesale and retail trade	-4.8	0.6	5.9	4.5	6.3	6.8
Transportation and storage	4.1	0.5	2.9	4.2	5.4	5.2
Accommodation	-77.7	6.7	50.0	18.6	16.2	6.8
ICT	18.6	5.7	5.3	4.1	4.6	4.8
Finance	17.6	2.2	5.2	7.0	7.6	6.6
Real estate activities	-33.7	3.3	6.1	8.9	11.6	6.3
Professional activities	-26.1	1.0	4.2	2.0	2.4	2.9
Administrative	-43.3	0.0	2.0	2.0	1.9	1.9
Public administration	-12.4	1.3	4.0	0.3	1.0	1.0
Education	-9.3	1.7	4.8	2.3	1.7	2.4
Human health	76.3	4.6	1.5	2.7	2.4	2.4
Overall GDP Growth	-5.7	7.8	4.6	5.0	5.4	5.2

Source MoFED

30. The economy is expected to grow faster in 2024 at 5.4%, as current projects in the mining, manufacturing and electricity sector begin to bear fruit.

31. Given the extraordinary era of overlapping global crises, this growth projection, however, faces uncertainty from negative spillovers from

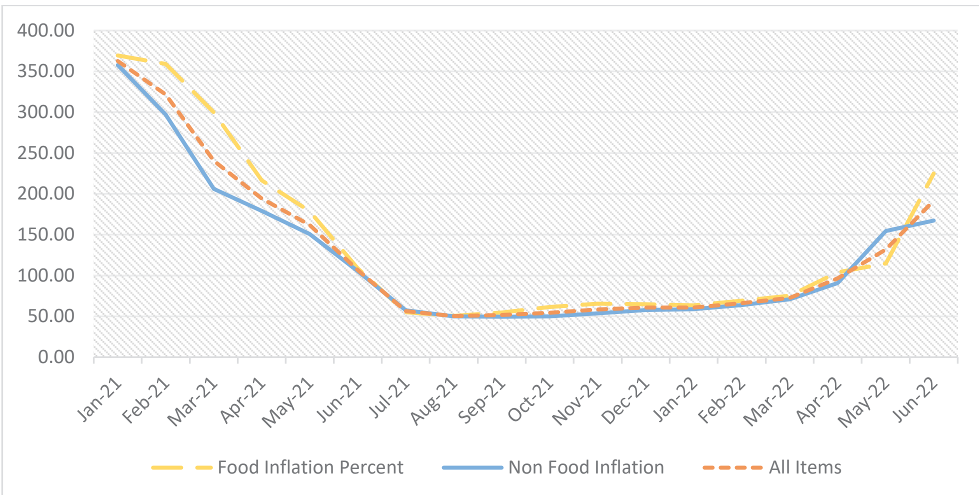
the global conflict, the evolution of the COVID-19 pandemic and climate change impacts.

Inflation

32. Domestic headline inflation steadily accelerated from 60.7% in January to 191% in June 2022, partly due to external factors which impacted negatively on import prices of raw materials, food, fertilizers and liquid fuels.

33. Furthermore, domestic adverse inflationary pressures through forward pricing and sustained depreciation of the exchange rate were additional drivers of inflation.

Figure 2: Annual Inflation



Source RBZ

34. To year end, inflation is expected to slow down, as Government continues to implement policies that address adverse inflation expectations, speculative tendencies, exchange rate manipulation as well as arbitrage opportunities.

35. In the outlook, maintaining low rates of inflation and a stable exchange rate remains the overriding policy objective for Government as this will promote competitiveness of the domestic economy. Stabilization policy measures, such as a shift towards a unified market-oriented exchange rate regime, reduction in the budget deficit, no recourse to the central bank overdraft facility, as well as streamlining the subsidy interventions, among other initiatives, will continue to be refined in order to manage exchange rate volatility and inflation.

Exchange Rate

36. The introduction of an inter-bank exchange rate, through the willing buyer-willing seller concept, has added impetus towards price discovery in the foreign exchange market. As such, the inter-bank and auction rate have largely converged, at ZW$344/USD and ZW$338/USD, respectively, as of the auction of 14 June 2022.

37. Government has taken additional measures to further deepen trading in the inter-bank market by raising the permissible thresholds of the traded amounts to US$10 000 from US$5 000, in a bid to further enhance the market price discovery mechanism. This is expected to gradually attract more foreign currency on the formal market that is available for the productive sectors of the economy to retool and procure raw materials as well as other demands by general public.

Monetary and Financial Sector

38. Projections into 2023 confirm sustained stability in the financial sector, following supportive interventions by the Monetary Authorities to improve foreign currency availability for critical imports.

39. In 2023, focus will still be on containing money supply growth, convergence of the existing multiple exchange rates, curb arbitrage opportunities as well as increase the use of the local currency.

40. Monetary policy will seek to balance the twin, but sometimes conflicting objectives of managing inflation and exchange rate volatility while encouraging economic growth with focus on ensuring exchange rate and price stability, reducing inflation to single digit levels, boosting foreign reserves and promoting a sound financial system.

41. In addition, the Central Bank will continue to take steps to maintain and strengthen the resilience of the banking sector, build investor confidence and attract capital inflows into the economy.

2023 FISCAL POLICY THRUST

42. Fiscal consolidation measures implemented during the past four years have resulted in the Government's fiscal position improving, with smaller deficits being recorded during the past three years, thereby reducing the need for recourse to the Central Bank overdraft facility that was the main source of money supply growth in the past. Improved fiscal performance has also enabled the rebuilding of fiscal buffers that enable the country to respond to future shocks.

43. Fiscal deficits have remained within the 3% of GDP threshold, in line with the NDS1 and the SADC Macroeconomic Convergence Target, as the country registered balanced budget (0.4% of GDP surplus) in

2019, a budget surplus of 1.7% of GDP in 2020, and a deficit of 1.7% of GDP in 2021.

44. This is despite significant expenditure pressures emanating from global and domestic shocks in the form of the COVID-19 pandemic, climate change impacts of drought and floods.

45. Government's policy thrust will continue to be anchored on maintaining a sustainable fiscal position in order to support structural reforms required to ensure inflation and exchange rate stability whilst enabling Government to finance public services in an affordable and sustainable budget framework.

46. The fiscal deficit will be maintained at below 3% of GDP during 2023, with strict control on consumptive expenditures in order to provide more resources towards development expenditures such as infrastructure and social services.

47. The medium-term fiscal framework is as indicated in the table below.

Table 6: Macro-Fiscal Framework 2022-2025

National Accounts (Real Sector)	2021	2022	2023	2024	2025
Nominal GDP (ZWL$ Million)	3 273 365.4	10 501 448.8	18 780 234.7	29 803 244.9	42 532 769.3
Real GDP Growth (%)	7.8	4.6	5.0	5.4	5.2
Inflation (Annual Average) %	98.5	166.7	100.7	50.2	33.4
Government Accounts					
Revenues (excluding Retained Revenue)	489 592.2	1 740 000.2	3 140 948.5	5 027 222.9	7 251 337.2
% of GDP	15.0	16.6	16.7	16.9	17.0
Expenditures (Million ZWL$)	545 029.2	1 897 522.0	3 400 934.4	5 404 862.4	7 507 931.9
% of GDP	16.7	18.1	18.1	18.1	17.7
Recurrent Expenditures	364 149.5	1 451 056.5	2 594 307.7	4 046 114.1	5 459 302.4
% of GDP	11.1	13.8	13.8	13.6	12.8
Employment Costs including Pension	193 261.0	867 016.5	1 531 624.0	2 415 287.2	3 222 369.2
% of GDP	5.9	8.3	8.2	8.1	7.6
% Total Expenditure	35.5	45.7	45.0	44.7	42.9
% of Revenue	39.5	49.8	48.8	48.0	44.4
Capital Expenditure & Net lending	180 879.6	446 465.5	806 626.7	1 358 748.3	2 048 629.5
% of GDP	5.5	4.3	4.3	4.6	4.8
Overall Balance	-55 437.0	-157 521.8	-259 985.8	-377 639.5	-256 594.7
% of GDP	-1.7	-1.5	-1.4	-1.3	-0.6
Public Debt	1 863 860.0	10 381 337.6	17 366 044.5	22 566 423.3	31 842 549.2
% of GDP	56.9	98.9	92.5	75.7	74.9

Source MoFED

48. To attain the above targets, measures towards rationalisation of public expenditures will be deepened by identifying and removing expenditure overlaps and waste, strengthen programme-based budgeting, anchored on performance contracting of public officials and other public finance management reforms, domestic resource mobilisation and facilitating private sector led growth.

49. The structure of Government spending will continue to be reviewed and employment costs including pension limited to below 50% of revenues whilst capital spending as a percentage of GDP gradually increased to support the high economic growth strategy under NDS1.

50. These measures will be complemented by a comprehensive PFM Reform Agenda, aimed at progressively strengthening public resources management arrangements to ensure the country has an efficient, effective, and transparent PFM system to underpin fiscal and macro-economic stability, guide the allocation of public resources to national priorities, support the efficient delivery of services, enhance transparency and accountability for public funds and minimise opportunities for corruption and other resource leakages.

Revenue Strategies

51. Consistent with the National Development Strategy, revenue collections will be enhanced through rationalisation of tax expenditures incurred as a result of generous fiscal concessions. Initiatives have already been taken through adoption of a duty regime which strengthens Value Added Tax collections.

52. In addition, the deliberate policy whereby industry access duty free inputs and capital equipment is anticipated to boost production, enhance disposable income thereby widening the tax base.

53. Furthermore, Government is modernising tax systems, broadening the tax bases as well as introducing more efficient ways of raising revenue from existing revenue measures as well as those targeted at the informal sector.

54. Expanding efforts towards additional domestic resource mobilisation through effective tax policies, savings and the use of other innovative mechanisms, such as diaspora bonds and remittances remains critical in order to fund priority areas such as infrastructure, health and education.

Expenditure Priorities

55. Reforms undertaken since 2018 have ensured that budget rigidities of the past, mainly associated with lower efficiency of public spending, reduced fiscal space and increased financing costs are addressed. These fiscal consolidation measures will be followed through during 2023 in order to support macro-economic stability and provide further impetus towards a private sector led economic growth and development.

56. However, the 2023 Budget is being prepared in the context of a relatively nascent economic recovery, limited budgetary resources and rising pressures on the fiscus. In this regard, additional resources to support spending priorities will be severely limited, and hence, requiring reprioritisation of expenditures or matching such expenditures with tax increases.

57. Core social programmes that benefit the poor including those providing resilience against adverse external shocks as well as opportunities for productive economic activities need to be protected.

58. Also being prioritised are developmental outlays that support socio-economic activities through improved reliability of public services,

mainly for enablers such as electricity, water, transport housing delivery and ICT. Public investment decisions will also prioritise rehabilitation and maintenance programmes over outlays on new assets to ensure increased utility from existing assets including improvements in the operations and management of public enterprises in the infrastructure sectors.

59. There is urgent need for appropriate pricing of public goods and services, such as electricity, water and fuel, in order to reduce the subsidy burden and demand for the services whilst also providing scope for maintenance of critical assets.

Budget Financing

60. The projected 2023 budget financing gap will be financed through borrowing in the domestic financial and capital markets, given the limited access to external financing due to the external debt arrears.

61. Issuance of Government securities will continue to be conducted through the Treasury Bills Auction System, in order to enhance competition and transparency. Enforcement of compliance to the Prescribed Asset Status for pension funds and insurance companies will be strengthened by invoking penalties. In addition, Special Drawing Rights (SDRs) drawdowns are expected to complement domestic resources in financing the Budget.

Risks to the Economic and Fiscal Outlook

62. The projected positive economic growth trajectory and attendant revenue and expenditure forecasts are subject to domestic and external risks, which, if they materialise, could significantly undermine achievement of the 2023 Budget objectives.

63. On the domestic front, high and sustained exchange rate depreciation, coupled with rising inflation pose the greatest risk that could potentially knock down economic growth by between 2% and 3%, with implications on revenue collection and the budget deficit target.

64. Climate change impacts, particularly incidences of drought negatively impact on economic performance, particularly with regards to agricultural output, and hence, the need to implement programmes meant to build resilience of the economy going forward.

65. The Ukraine/Russia conflict, if it is protracted, could impact on global growth, further disrupt supply chains and sustain increase commodity price increases, with adverse implications on domestic inflation and economic growth. In particular, fuel and food prices may worsen the country's external position and exchange rate. For every 1% increase in global food prices, the pass-through effect into the domestic inflation, ranges from 0.1% to 0.6%. depending on the local food supply situation.

66. As part of mitigatory measures, Government will continue to fine tune the monetary and fiscal policies to contain exchange rate depreciation and rising inflation. Scaling up the implementation of value chain

developments, complimented by measures to diversify exports and imports markets will be critical in insulating the economy against exogenous shocks as well as increase export receipts.

Revenue Risks

67. The evolving economic situation, characterised by rising inflation and widening exchange rate premia, is increasing the risk of real tax erosion.

68. As inflation continues to rise, economic agents develop a tendency of delaying paying taxes in order to take advantage of loss in the real value, with indications showing that for every 1% increase in inflation real revenue collection is reduced by 0.05%.

69. Furthermore, dollarization, coupled with high informality continues to shrink the taxable base, with most transactions going underground where most activities are cash based.

70. Government will consolidate the stabilisation measures, and strengthen revenue collection efficiency through audits and other administrative measures.

Expenditure Risks

71. Government has taken the stance of regularly reviewing wages and salaries of civil servants in order to deal with the rising cost of living. Wage pressures, if accommodated above increases in revenue, may become unsustainable and compromise the flexibility of the budget.

72. Budget flexibility is also being compromised by the increasing demand for payment of wages in foreign currency. This is against pressure to also allow most taxes to be levied in local currency. If this is not contained, Government will face serious US dollar cash flow demands.

73. Furthermore, infrastructure delivery costs are likely to increase significantly due to global inflation and may impact on construction input costs such as aluminium, steel and cement, requiring existing contracts to be re-evaluated or re-negotiated.

PROPOSED STRATEGIC PRIORITIES FOR THE 2023 BUDGET

74. The 2023 Budget priorities will draw from the 14 thematic areas of NDS1 by supporting the implementation of projects and programmes identified therein whilst also ensuring a balanced and integrated approach to development, in line with the thrust of leaving no one and no place behind.

75. The proposed strategies and priorities for 2023 will need to take into account, the prevailing global and domestic economic environment, risks to the outlook and the attendant emerging issues such as the 2023 electoral processes.

Economic Growth and Macro-Stability

76. Maintaining macroeconomic stability is a precondition for sustained and inclusive economic growth, which in turn, is critical for employment creation, and provides the fiscal space required to address other

critical social concerns, such as access to health services, sanitation and safe drinking water, among others.

77. Progress towards macro-economic stability in the country has largely been undermined by global and domestic shocks that have resulted in higher inflation than originally envisaged as well as exchange rate volatility.

78. Notwithstanding these shocks, the positive projected economic growth trajectory of 7.8% in 2021 and 4.6% in 2022, underpinned by increased activity in almost all the productive sectors reflects the positive transformation in the economy. During 2023, growth is projected at 5%, the same as the NDS1 target, which is underpinned by the following macro-economic assumptions: -

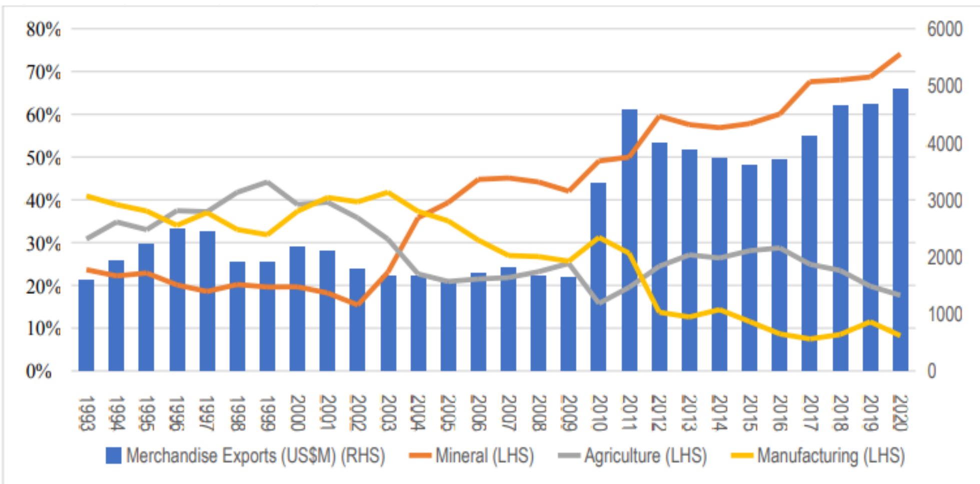
- Implementation of fiscal and monetary policies supportive of a stable macroeconomic environment and conducive business environment in support of a private sector led economy;
- Promoting investments in productive value chains and value addition, particularly in the mining and agriculture sectors;
- Favourable 2022/23 rainfall season, complemented by timely availability of inputs;
- Prioritisation of developmental spending in critical areas such as infrastructure, human capital development and the social sectors.;
- Continued use of the multicurrency regime;
- Favourable commodity prices that will support mining production and export receipts.

Supporting Productive Value Chains

79. Transforming the economy to an upper middle-income economy by 2030 requires implementation of an optimal mix of policies that address the reliance on the export of primary products from mining and agriculture, which are vulnerable to international commodity price volatility. By participating in the lower end of regional and global value chains, the country remains at a disadvantage and may not benefit from the recently launched African Continental Free Trade Area (AfCTA) which presents a great market opportunity for the country's products.

80. In the medium term, therefore, investments will prioritise value addition and sophistication of manufactured products, taking advantage of the country's endowments and innovations from the universities in order to arrest the decline in the number, volume, diversity and complexity of locally produced products, including the current concentration in the export basket to a few countries.

Figure 3: Export Composition by Sector



Source: RBZ, ZIMSTAT

Agriculture

81. Agriculture remains the cornerstone of the economy, contributing about 10% of GDP and providing livelihoods for about 70% of the population. However, production and productivity continue to be low and face vulnerability to weather-related shocks that impacts on the performance of the economy at large.

82. The sector is expected to rebound during 2023, with growth projected at 6.7%, up from the 5% decline projected for 2022. Interventions in the sector will be guided by the Agriculture and Food Systems Transformation Strategy and Agriculture Recovery Plan, whose thrust is to increase agriculture output to US$8.2 billion by 2025.

83. During 2023, Government financing will focus on the Agriculture Productive Social Protection Scheme, while the private sector will fund the National Enhanced Agricultural Productivity Scheme (NEAPS) through private financiers, with Government providing guarantees where necessary. Other private and/or individual farmers will continue to finance their farming activities using resources mobilised through own initiatives.

Grain

84. Food security at household and national level, complemented by a viable Strategic Grain Reserve will be the focus of fiscal support during 2023, in the midst of geo-political tensions affecting global grain supply and unavailability or high prices for agricultural inputs, particularly fertilizer.

85. Government support will broadly be based on implementation of the key tenets of the Agriculture Recovery Plan and based on the following: -

- Timeous provision of inputs for the Productive Social Protection Scheme, covering vulnerable households, and the National Enhanced Agriculture Productivity Scheme, managed through banks and supporting commercial farming activities;
- Ensuring crops grown are determined by agro-ecological conditions;
- Implementation of climate proofing strategies for smallholder farmers under the *Pfumvudza/Intwasa* Programme;
- Access to appropriate finance for inputs and working capital

86. Sustainability of current interventions and the realization of output targets will benefit from better targeting of the serious farmer through establishment of a central registry of farmers, buyers and service providers, including an agriculture stop order system to ensure recoveries for Government and service providers for any loans advanced to the farmer.

Horticulture Export Revolving Fund

87. Government has set up a US$30 million Horticulture Export Revolving Fund (HERF) with various local banks that will support eligible and productive exporting horticulture farmers with a good track record in the horticulture industry, including farmers, cold chain, packaging and logistics with finance to cover capital expenditure and working capital requirements.

88. The facility is accessed through the normal banking channels, modelled on a risk sharing structure where banks undertake due diligence and credit assessments on beneficiaries whilst Government provides an 80% cover guarantee. This facility is expected to support the revival of the sector going forward.

Farm Mechanisation and Productivity

89. Farm equipment remains a critical input for modernization of agriculture activities to enhance crop and livestock production and productivity.

90. Noting that some of the required equipment is far beyond the reach of most farmers, Government will introduce facilities for the procurement of the requisite equipment, in collaboration with the private sector. This will be complemented by the adoption of new farming technologies such as herbicide use, *Pfumvudza*, and improvement in the availability of chemicals and fertilizers in the local market.

Irrigation

91. The 2023 National Budget will channel resources towards irrigation development, consistent with the target to put over 350 000 hectares under irrigation in the medium to long term. Incentives will be extended, targeting increasing agricultural production and productivity, including facilitating the importation of duty-free farming equipment, as well as providing a conducive farming environment.

Figure 4: Biri Irrigation scheme

Biri Irrigation Scheme, Mberengwa

92. Government will also promote increased private sector funding for irrigation development in order to boost growth and climate proofing of the agriculture sector.

Rural Development and Industrialisation

93. Government seeks to promote rural development and transformation through implementation of the previously announced rural growth poles development model supported by appropriate incentives on the basis of comparative advantage of the area.

94. Emphasis is on ensuring that targeted growth poles have the necessary basic infrastructure of portable water and sanitation, roads and power.

95. As part of the transformation of the rural communities, Government is spearheading the *V30 Accelerator Model*, meant to promote production, productivity and profitability for communal irrigation schemes country wide where ARDA provides technical expertise in the form of a competent Scheme Business Manager to transform the schemes into viable commercial enterprises.

96. At least 42 Irrigation Schemes were onboarded to pilot the V30 Accelerator Management Model during the 2021 winter season. A total of 25,468 tonnes of wheat were produced at an average yield of 4.8 tonnes per hectare up from 1.9 tonnes from the same schemes during the 2020 winter wheat season.

97. Going forward, Government seeks to upscale this business model to all communal irrigation schemes in order to make them commercially viable and reduce dependency on the fiscus.

Marketing of Agriculture Crops

98. The marketing framework for agricultural produce will be reviewed with GMB focusing only on procuring grain for the strategic grain reserve with the rest of the products being sold to private players.

99. Through the Zimbabwe Mercantile Commodity Exchange, Government will gradually allow market forces to determine the prices of agricultural produce which should give impetus towards increased output as noted in some crops.

Business Advisory and Extension Services

100. The extension services provide agricultural advisory services which can help the farmers to increase knowledge in livestock and crop production. Therefore, the Budget will support institutions involved in farmer extension services in order to increase farmer yields and output.

101. The capacitation will include provision of tools of trade such as vehicles and equipment, including appropriate accommodation in some cases.

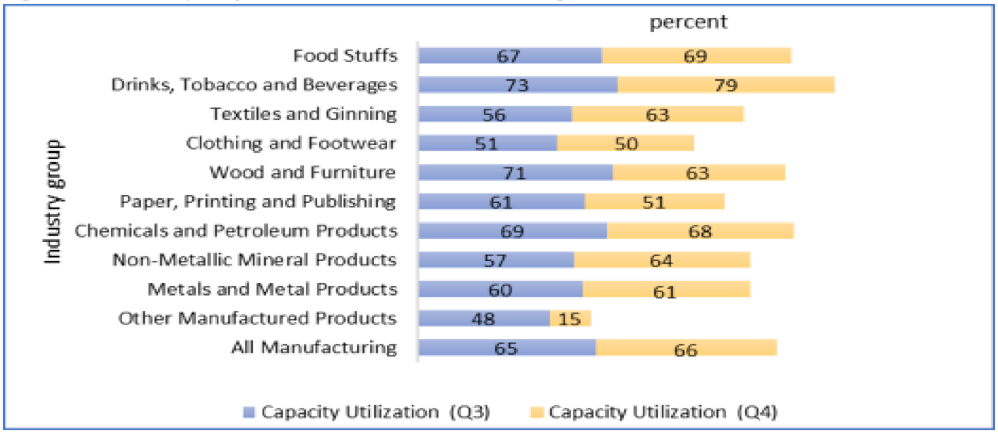
Lease Agreements

102. During 2023, Government will finalise and rollout a 99-year lease which is bankable in order to enable farmers to secure funding from financial institutions. This also provides them with security as they carry out their agriculture activities. This is expected to boost confidence and increase growth in the agriculture sector.

Manufacturing

103. Capacity utilisation in the sector has continued to improve, with the 4th quarter 2021 Zimstats Manufacturing Sector Business Tendency Survey and the CZI 2021 Manufacturing Sector Survey Report both indicating increases of 66% and 56.5%, respectively.

Figure 5: 2021 Capacity Utilisation in the Manufacturing Sector



Source: ZIMSTATS

104. The recovery is on the back of availability of foreign currency on the auction market, recovery in the agriculture sector in 2021, stability in the macroeconomic environment and localization of value chains.

105. The manufacturing sector is expected to grow at an average of 3.7% during 2023, assuming bottlenecks being experienced such as shortage of raw materials, cash flow constraints and stability are addressed. Value addition and beneficiation in sectors such as Mining and Agriculture sectors are expected to contribute more to the growth of the sector.

106. Furthermore, continued fiscal support from Government, such as allocations from the Special Drawing Rights (SDR) for retooling and capitalisation of the sector will boost production, complemented by the following:—

- With over 70 percent of locally produced goods now constituting shelf space in shops, promoting locally produced goods will further enhance capacity utilisation;
- A clear roadmap and strategy on the African Continental Free Trade Area (AfCFTA) will also be required with both Government and industry identifying products to be included on the list of sensitive products under the Market Offer of AfCFTA;
- Increased productivity and output from critical crops such as soya beans, maize, cotton, sugarcane and dairy, among others and development and strengthening of new value chains beneficiation of minerals such as lithium will expand the manufacturing sector as well as protect the economy from losing its potential value chain gains;
- Rejuvenation of key enablers such as transport, power, energy and water, as well as a predictable, consistent stable policy environment;
- Access to credit and foreign currency for raw materials and retooling/modernisation. Duty rebate for importation of equipment and tax exemptions will continue to support growth of the sector;
- The Industrial Development Corporation of Zimbabwe (IDCZ) and other such institutions being capacitated to provide medium and long-term finance to support the sector;
- Deepen collaboration between industry, universities and other public entities in order to tap into the 500 patents and innovative ideas already registered that will broaden locally produced

products and improve competitiveness. Linkages with such institutions as Verify Engineering, a parastatal that specialises in technology innovation and provision of petrochemicals and corresponding engineering support services, will contribute towards industrialization through commercialization of various technologies.

Value Chains Revolving Fund (VCRF)

107. In support of the manufacturing sector, Government has set up a US$30 million Value Chains Revolving Fund to support manufacturers with foreign currency for retooling and development of value chains that will increase production for both the local and export market.

108. Access of the facility is through participating banks and modelled on a risk sharing structure where banks undertake due diligence and credit assessments on beneficiaries whilst Government provides an 80% cover guarantee.

Mining

109. Increased investment in the mining sector is transforming the sector from a US$2.7 billion industry in 2017 to a target of US$12 billion by 2023. The sector now contributes approximately 11% of the Gross Domestic Product and over 60% in export earnings, with gold, platinum group metals (PGMs), chrome, nickel, diamonds, copper, lithium and coal being the main contributors.

110. The mining sector is benefiting from firming international mineral prices and increased investments, with the sector now targeted to grow by 6.2% in 2023, in line to attaining the objective of a US$12 billion mining industry by 2023.

111. Most of the mineral output, however, is exported as ores or semi-processed minerals, depriving the country of the much-needed export earnings. Expansion of mining production provides an opportunity for the sector to create economies of scale required to undertake mineral beneficiation and value addition, create vibrant backward and forward linkages with the rest of the economy, whilst also contributing towards socio-economic development of the country.

112. Realizing the full potential of the sector will require policies that remove constraints that undermine investment in exploration, expansion of existing mines, curbing of mineral leakages, backlog clearance, environmental management as well as encourage mineral beneficiation and value addition.

113. Identified programs and strategies in this regard include the following:

Mineral Exploration

114. Determination of the country's mineral reserves is critical in attracting investment and management of mineral extraction process in order to balance the need of the present and future generations, given the finite nature of minerals.

115. Government will promote investment in exploration through provision of updated national geological data base that is readily available and accessible online by investors. This also entails the quantification of available resources so as to derive the maximum benefit from mining activities.

Mining Cadastre Information Management System

116. The implementation of the computerised mining cadastre system is at an advanced stage. Data capturing and provision for a platform for clients to log on to the system to apply for the mining title is at an advanced stage. Manicaland is now operating online, with the rest of the mining provinces targeted to be online in 2023 once the data capturing exercise is complete.

Mining Legal and Regulatory Framework

117. The thrust is to expedite the amendment of the Mines and Minerals Act in line with the current operating environment and international best practices. These amendments will go a long way in improving confidence and investment into the mining sector.

118. In this regard, amendments of the Gold Trade Act, Precious Stones Trade Act, Minerals Development Policy, Value Addition and Beneficiation Strategy and other mineral specific policies to support the Principal Act, should also be resolved.

Mineral Beneficiation and Value Addition

119. In order to promote local mineral beneficiation and value addition, Government will implement the following strategies:

- Restricting the exportation of minerals in their raw form e.g. chrome and granite. The restriction will help capacitate current smelters and maximise the value chain to be realised from the country's abundant resources as spelt out in the National Development Strategy (NDS)1;
- Capacitation of chrome smelters through allocation of mining ground;
- Promotion of setting up of coke oven batteries as a prerequisite to the issuance of coal mining title;
- Ban on the export of coke by-products to ensure sufficient feedstock for ZIMCHEM Value Addition Project;
- Setting aside quotas reserved for local processing e.g., 10% of rough diamonds production is reserved for local cutting and polishing.

Resuscitation and Expansion of Mines

120. Efforts towards resuscitation of closed mines as well as expansion of existing mines will be enhanced through engagement with investors and relevant stakeholders towards the re-opening of the closed mines.

Supporting Small Scale Miners

121. Government has set aside resources from the SDR allocation amounting to US$10 million for the establishment of 10 gold centres, one for each province in support of the small-scale miners. The Gold centres will offer transport, technical services, milling services and a ready market for gold produced.

Strengthening of the Sector

122. Efforts will be made to enhance capacity of relevant institutions to conduct investigations, inspections and audits, the implementation of occupational health and safety strategy and enforcement of guidelines that reduce occupational injuries, fatalities and dangerous occurrences.

123. Such interventions will ensure clearance of backlog on mining title applications, with the accelerated backlog clearance exercise, whose objective is to become current on all mining title applications.

124. Going forward, a minerals commodity exchange will also be set up that will ensure access to markets and better prices for the miners and the economy.

Mineral Leakages

125. More effort will also be channelled towards plugging of mineral leakages. This will be through the monitoring of mines, air strips, aerodromes, airports and national boundaries, gold mobilisation, formalisation of small-scale mines, and conducting awareness campaigns.

126. Also critical is the need for Government to take pragmatic steps to remove loopholes that have ensured the economy doesn’t benefit from mineral resources such as platinum and lithium by strong state ownership and participation in the exploitation of natural resources, including contributions to the Zimbabwe Sovereign Wealth Fund.

Environmental Management

127. The Government of Zimbabwe ratified the Minnamata Convention, making it a signatory towards the ban in the use of mercury. As part of the broader objectives of addressing environmental management concerns, Government will review some of the current mining activities in order to reduce their negative impact on the natural eco-systems, particularly on land and water as well as the livelihoods of adjacent communities.

Tourism

128. Domestic tourism recovery is benefiting from a freer global travel environment as countries gradually remove COVID-19 restrictions, as well as the introduction of new flights into the country by airlines, particularly to the resort town of Victoria Falls.

129. Continued destination marketing through campaigns, online marketing and radio and television adverts is expected to improve and generate demand in the domestic market and source regions such as Africa, Europe, America and Asia.

130. On its part, Government will extend incentives to the sector to aid recovery and performance during 2023 and beyond, particularly through tax incentives that allow for procurement of new capital equipment for expansion, modernization and renovation of hotels and restaurants.

131. These initiatives will be critical in the recovery and sustainability of the tourism sector in the medium term.

Environment and Natural Resources Management

132. A clean, safe and healthy environment is a foundation for sustainable economic development and hence, the need to address environmental challenges facing the country such as deforestation, pollution, soil erosion, land and wetlands degradation, poaching, loss of biodiversity and contamination from poor mining practices.

133. Government is, therefore, committed to following a greener growth path, improve the environment, climate change management and develop its biodiversity economy as a means to achieving sustainable development.

134. The biodiversity economy, entailing sustainable use and/or conservation of indigenous species in their natural habitats will be developed to improve livelihoods and ensure climate resilient economic development.

Infrastructure, ICTs and The Digital Economy

135. Government investment have transformed the country's infrastructure landscape resulting in the completion of stalled and new projects across the country, particularly in sectors such as transport, energy, water and sanitation, irrigation and social sectors.

136. The NDS1 costed compendium of projects will guide resource allocations and investments to the various infrastructure sectors during

2023 and beyond, in line with the need to deliver enablers that allow the country to realise its development objectives.

137. Rehabilitation and maintenance of existing assets will be prioritised, including expansion of capacity on identified critical areas. Government Departments will be encouraged to prioritise on-going and stalled projects before embarking on new projects in order to ensure the country benefits from such investments.

138. Significant progress achieved to date in the delivery of projects will be sustained going forward and will be complemented by capacity building programmes to strengthen implementing agencies' ability to execute and deliver projects on time and on budget.

139. Enforcement of best practices in costing of projects, procurement and contract management will be undertaken to provide value for money and ensure infrastructure outlays are expended in a cost-effective manner. Also critical is provision of guidelines on contract negotiations and pricing to ensure costs are reflective of market fundamentals.

140. Crowding in of private sector funding will be upscaled by investments in project preparatory activities, including feasibility studies, in order to have a pipeline of bankable projects ready for the market.

141. Furthermore, the 2023 Budget will support the design and implementation of climate proofing and resilient infrastructure as part of measures to respond to climate change impacts.

Information Communication and Technology

142. The internet penetration rate has reached 63.1% from 59.1% recorded in 2020 following deployment of communication infrastructure in the form of additional base stations, mainly in underserved areas, by mobile operators and POTRAZ which resulted in an increase in active internet subscriptions.

143. Consistent with Government strategic thrust of having a digitally enabled economy that promotes innovation, growth and job creation, among other key benefits, the 2023 National Budget will continue to promote investments that improve access and usage of ICT services in the economy.

144. Mindful of the rapid global developments in the sector, which have seen a rapid increase on ICT services usage, mainly on account of the Covid 19 Pandemic, Government will therefore put in place measures that accelerate the development of Smart Government systems, such as the Zim-Digital Migration Project, Smart Health, Smart Agriculture, Smart Education, Smart Transport systems, among others, through investments in requisite ICT infrastructure to enable e-services to citizens.

145. Additionally, priority will be on capacitation of Government institutions to develop and promote the provision of E-Services in day-to-day management of Government business.

Transport

146. Investments in the sector will target rehabilitation and upgrading of highly trafficked road networks, including those that promote regional and international trade.

Figure 6: Beitbridge Road Dualisation

Beitbridge Road Dualization (urban section with a foot path)

147. The 2023 Budget will, therefore, prioritise investments and interventions aimed at improving road network connectivity, particularly the North-South Corridor and targeting Harare-Beitbridge Road, trunk roads, and tertiary roads as well as rehabilitation and upgrading of critical arteries in urban areas.

148. In the aviation sub-sector, focus will be on continuation of upgrading of airports infrastructure and associated equipment, in order to improve air safety and security.

Figure 7: R.G Mugabe International Airport

Upgrading of R.G Mugabe International Airport

149. Interventions in the rail sector will focus on ensuring the company gradually recovers capacity to transport 12m metric tonnes achieved in 1990 from the current 2,3m metric tonnes ferried in 2021 through rehabilitation and upgrading of track infrastructure, rolling stock, signaling and communication.

150. Given the huge capital requirements to fully capitalise the entity, initiatives to entice private sector participation in managing and operation of the rail infrastructure, are already underway and a roadmap in place and will be pursued during 2023. The 2023 Budget will complement these initiatives through the Public Sector Investment Programme.

Water and Sanitation

151. According to ZIMVAC 2022 Rural Livelihoods Assessment Report, an average of 78% of rural households now have access to improved

water sources with Mashonaland Central and Matabeleland North leading at 84%. Similarly, about 66% of rural households had access to improved sanitation with Mashonaland East at 77%.

152. Going forward, Budget interventions will continue to scale up implementation of programmes and projects targeting dam construction, conveyancing infrastructure and boreholes rehabilitation and drilling guided by the integrated approach to water development adopted by Government to foster beneficiation and actualization of investments in the sector to increase access to portable water and sanitation countrywide.

153. On account of climatic change impacts, focus will be on projects and programmes that mitigate climate change shocks as well as ensure that we sustainably adapt to these adverse occurrences.

Figure 8: Gwayi-Shangani Dam

Gwayi-Shangani Dam

154. The rural WASH programmes, targeting borehole rehabilitation and drilling, among others, will be prioritized in order to empower and improve livelihoods for rural communities.

Energy

155. Improved reliability and plant optimization at Hwange Thermal Power Station and increased generation at Kariba Power Station has seen local electricity generation output increase to 2 168.8 GWh during the first quarter of 2022, a 15% above the target for the same period.

156. Given the renewed focus on clean energy sources, priority during 2023 will be on completion of ongoing projects as well as developing new renewable energy sources.

Figure 9: Hwange 7 & 8 Expansion Project

Hwange 7 & 8 Expansion project: Generator number 7

157. Additionally, the current capacity of the transmission and distribution network will be enhanced through rehabilitation and replacement of network lines and associated equipment such as transformers.

158. Furthermore, the 2023 Budget will support accelerated investment by Independent Power Producers (IPPs) through the finalisation of Government Implementation Agreement (GIA) that provides guarantees and safeguards for private investors in the renewable energy sector.

159. Under the Rural Electrification Programme focus will be towards grid extension, targeting institutions such as schools and hospitals; as well as centres of economic activity that promote rural development.

Housing Development

160. In line with the National Development Strategy 1 target of constructing 220 000 housing units by 2025, and ensure availability of quality and affordable accommodation to the citizenry, the 2023 Budget will facilitate participation of the private sector towards housing development projects nationwide. Major focus will be on construction of residential flats, housing units as well as servicing of residential stands in the urban, peri urban and rural areas of Zimbabwe.

161. Given the way some of our settlements were established, Government will also focus on sanitization and regularisation of settlements across the country in order to ensure properly organized settlements that have onsite and offsite infrastructure for services such as water, sewer and roads.

162. In pursuit of the need to ensure that Public Officials are able to acquire decent accommodation, Government will continue to capitalize the Housing Loan Schemes with resources for on lending to beneficiaries.

163. Provision of Government institutional accommodation remains key priority with emphasis being on completion of ongoing works at various composite office blocks.

164. In addition, completion of ongoing works for staff accommodation for both the security sector and general Government employees will be prioritised under the 2023 Budget.

Youth, Sport, Arts and Culture

165. The country's youths are expected to champion the country's transformation as well as seek solutions that address current challenges. Through the National Youth Policy (2020-2025), Government interventions will focus on positive youth development that ensure our young women and men flourish as well as promote national building and values, critical for our empowerment drive and developmental processes.

166. The 2023 Budget will support youth empowerment programmes, focusing on the following four critical areas: -

- Education and skills development
- Employment and entrepreneurship
- Governance and participation
- Health and wellbeing.

167. Fiscal outlays will prioritize developing and modernization of vocational training centers, including provision of requisite equipment. This also includes capacitation of institutions that support the youth including providing opportunities and mechanisms for their integration into national development programmes.

168. Under sport and recreation, priority will be on rehabilitation and upgrading of sport facilitates and recreational centers with the aim of modernising such facilities to conform to international standards.

169. Focus on arts and culture will be on initiatives that increases access to facilities and programmes for the youth in order to bring cohesion within communities.

Women, Gender Equity, SMEs and War Veterans

170. Government is committed to addressing structural barriers to women's entrepreneurship and economic empowerment in order to ensure that they fully deploy their productive capacities and talent to bring value to their families as well as contribute towards sustainable economic development.

171. The 2023 Budget will prioritise programmes that promote gender equality and empowerment for women and girls as part of measures to end poverty, achieve food security and universal health, reduce inequalities and promote economic growth.

172. With regards to SMEs, the focus is on facilitating entry and retention of enterprises as well as capacitating and improving their efficiencies and linking them with local, regional and international value chains.

173. This will entail further capitalisation of empowerment institutions such as the Zimbabwe Women's Microfinance Bank, Empower Bank and the Small and Medium Enterprises Development Corporation (SMEDCO), address collateral issues inhibiting growth as well as improvements in the operating environment. Furthermore, the Budget will support construction of SMEs infrastructure facilities countrywide including working space.

174. On the welfare of war veterans, Government will continue to review their monetary and non-monetary benefits in line with macro-economic developments, including capitalisation of their companies.

Devolution and Decentralisation

175. The year 2023 marks the fourth year since the fiscus started allocating resources to the lower tiers of Government through the 5% Inter-Governmental Fiscal Transfers allocation as enshrined in the Constitution and as espoused in the Vision 2030, which has capacitated communities to make decisions affecting them.

176. Notwithstanding progress realized to date, it is now pertinent that the requisite policy, regulatory and institutional frameworks necessary to fully operationalize and entrench implementation of the devolution agenda be put in place.

177. Already, work towards finalization of the Inter-Governmental Fiscal Transfers (IGFT) Administrative Manual is underway that will guide local tiers of Government manage devolution funds in a cost-effective manner. Other enabling legislation whose principles have been approved by Cabinet include the amendments of the existing Urban Councils, Rural District Councils, Regional, Town and Country Planning Acts.

178. Furthermore, the institutional structure of Provincial/Metropolitan Councils will be fully operationalized in 2023 to provide oversite implementation of the devolution agenda.

179. Additionally, the institutional frameworks that underpins monitoring and evaluation of the programme will be further defined and capacitated to ensure efficiencies in management of resources under devolution as well as improve project implementation in general.

180. Government will also initiate capacity building programmes aimed at enhancing technical expertise of authorities in charge of managing and implementation of devolution.

Provincial Development Plans

181. Guided by the National Priorities from National Development Strategy 1 as well as local authorities' development plans, each province developed respective Provincial Economic Development Plans (PEDP), underpinned by resource endowments and provincial priorities. An extensive bottom–up consultation, involving communities, private

sector and development partners enabled the completed development plans to remain people centred.

182. Provinces are now expected to transform their areas into investment and economic zones, computing their own GDP guided by the PEDPs and able to attract local and foreign investment. Projects and programmes for each province will utilise the allocations under the 5% Inter-Governmental Fiscal Transfers as well as other resource mobilisation activities within the province.

Provincial GDP

183. The devolution agenda brings with it, increasing demand for information for use at national and provincial levels. ZIMSTAT has started producing subnational statistics, including the Provincial Gross Domestic Product (PGDP) that measures economic activity within the 10 provinces in the country, indicating contribution of each industry to the provincial GDP and each province to the national GDP.

184. Such information is useful in measuring living standards in different provinces as well as potential of each province, information that is critical in defining appropriate policy interventions.

185. During 2023, focus will be on capacitating provinces in GDP forecasting by providing training and relevant technical support.

Human Capital Development, Well-Being and Innovation

186. In a rapidly changing world landscape, the country’s success is now dependent on how communities and individuals within it adapt, change,

learn and share knowledge. Changing economic and social conditions have given knowledge and skills a central role in the economic success of nations and individuals.

187. However, the advent of the Covid 19 pandemic seriously impacted on the wellbeing of citizens, as formal education was disrupted, health-service shortfalls were encountered and difficulties in accessing food which have adverse implications on long-term productivity, income growth and social cohesion.

188. Also requiring urgent attention is the low absorption rate of budgeted resources which will require institutional strengthening of critical institutions to ensure allocated budgets are utilised to improve delivery of services to citizens.

189. The 2023 Budget will provide resources to maintain or expand health care systems and provide effective support systems for the poor through social safety nets as well as ensure every child is back in class. An effective response strategy will also embrace advances in information and communications technologies in the delivery of these critical services.

Health

190. The health sector has made significant progress in improving health outcomes and responding to population health needs with the latest Universal Health Coverage (UHC) service coverage index for Zimbabwe now at 54, above the Sub-Saharan Africa average of 43.89.

To ensure progress in the sector, the National Health Strategy (NHS) 2021-2025 identifies eleven health sector investment priority areas.

Figure 10: National Pharmaceutical Company Warehouse

Completed National Pharmaceutical Company warehouse building

191. The 2023 Budget, will, therefore seek to maintain the increased trajectory in domestic health financing in order to increase coverage and scope of services as well as enhance Zimbabwe's human capital development, focusing on the following outcomes: -

- Increased domestic funding for health towards 15% Abuja Declaration target;
- Improved quality of care at primary, secondary, tertiary, quintenary and quinary care;
- Improved health sector human resources performance and quality of care;
- Improved availability of essential medicines and commodities for improved access and quality of care;
- Improved Health infrastructure and medical equipment to improve access and quality of health service delivery;

- Reduced morbidity and mortality due to communicable and non-communicable Diseases;
- Increasing availability of safe water, sanitation and hygiene environment;
- Improved availability and access to quality reproduction, maternal, new-born, child and adolescent health;
- Improved nutrition status of the entire nation;
- Promoting health awareness and wellness programmes;
- Improved governance of the health service;
- Improved public health surveillance and disaster preparedness and response; and,
- Improved health research and development.

Education

192. Investments in the sector will ensure students are able to participate fully in a modern, knowledge society by developing competencies in the cutting-edge fields of mathematics, engineering, science and technology as well as ICTs which enhances the country's productivity and innovation capacity.

193. Government has already announced free basic education commencing in 2023 and institutional arrangements will need to be finalised and included in the 2023 Budget.

194. Under the Science and Technology and Innovation for Industrialization and Modernization programme, graduates will be equipped with skills

that empower them bridge the gap between knowledge produced in lecture rooms and laboratories with industry production.

195. Institutions of higher learning will be capacitated and encouraged to exhibit production and entrepreneurship. In this regard, utilising internal capacities and the Industrial Training and Trade Testing Manpower and Facilities to construct modern university accommodation infrastructure, innovation hubs at universities, industrial parks, as well as laboratories.

Figure:11 MSU Workbench Assembly Project

Layout of the frames

Preparation of workbench cabinets and tops

Workbench assembly

Part of the completed sections

MSU Workbench Assembling Project

196. To ensure increased uptake and application of STEM/STEAM subjects, teacher training institutions will be capacitated to produce STEM teachers through construction, equipping and re-tooling of laboratories, workshops and education facilities. This is in addition to other measures being implemented to sustain the uptake of STEM subjects from the current levels of 40.5%.

197. Furthermore, and in order to reduce learner walking distances to schools, registration of satellite schools will be enhanced including monitoring of staffing quality, teaching and learning standards at these satellite schools.

198. Further investments towards rehabilitation and maintenance of schools, including those damaged by storms will be prioritized in order to improve safe learning spaces.

Social Protection

199. Increasing social protection spending and targeting towards the poorest reduces vulnerability and deprivation, as well as bolster equity and social inclusion.

200. Government will continue to ensure availability of social protection for all by improving access to inclusive social protection, targeting persons with disabilities, children and the elderly. In this regard, and guided by the National Social Protection Policy Framework, the 2023 Budget will: -

- Prioritize the funding of social protection interventions;
- Develop innovative strategies for disbursing funds to beneficiaries in order to achieve efficiency and cost-effectiveness;

- Undertake regular reviews of the levels of funding of social protection programmes; and,
- Reduce administrative costs of social protection programmes with a view to improving the level of benefits.

201. This will be complemented by measures addressing weaknesses inherent in the country's social protection system through institutional strengthening and coordination as well as evidence-based means testing in order to improve efficiency, reduce overlaps, and enhance cost effectiveness.

Effective Institution Building and Governance

202. The budget will support public institutions that improve public service delivery, justice service delivery, rule of law and uphold national unity, peace and reconciliation as building blocks for achieving equitable and sustainable national development.

203. The launch of the Citizen Satisfaction Index will go a long way in enhancing service delivery while the establishment of a Social Cohesion and Reconciliation Index is underway to monitor unity, peace and reconciliation.

204. The alignment of laws with the Constitution is nearing completion with less than 26 out of a total of 396 laws still requiring amendment.

Figure 12: Fully Furnished National Assembly Chamber

Fully furnished National Assembly Chamber

205. Progress on the ease of doing business reforms initiative was affected by the Covid-19 pandemic as most engagements, meetings and activities were impacted by containment measures. The reform will be prioritised during 2023 in order to support investment and development of the country.

Image Building, Engagement and Re-Engagement

Arrears Clearance Debt Relief and Restructuring Strategy

206. Government remains committed to the engagement and re-engagement with the international community and creditors for debt resolution and arrears clearance as pronounced in the National Development Strategy (NDS) 1. In this regard, Government has formulated the Arrears Clearance, Debt Relief and Restructuring (ACDRR) Strategy, aimed at attaining debt sustainability post Covid-19 pandemic economic recovery which has been shared with all stakeholders.

207. In line with the Strategy, Government will continue to implement reforms in public debt management and increase dialogue with stakeholders in order to build consensus on the process and procedures of resolving Zimbabwe's unsustainable external debt overhang and arrears clearance.

208. As commitment to the re-engagement roadmap, Government will continue with quarterly token payments to the Multilateral Development Banks (MDBs), the World Bank Group, the African Development Bank and the European Investment Bank, as well as to each of the sixteen (16) Paris Club Creditors will continue.

Development Partner Support

209. In line with NDS1, Government will continue to strengthen Government led multistakeholder structures for effective development coordination mechanisms by operationalizing a three-tier Dialogue Forum Platform to interface with Development Partners as stipulated in the Development Cooperation Policy and the Manual of Procedures as follows: -

- Development Cooperation Policy Dialogue Forum - Diplomatic (Apex);
- National Development Cooperation Forum – Management (Heads of Cooperation); and
- Technical Sector level Cooperation – Operational (Sector Working Groups).

210. As part of measures to improve transparency and accountability in the management of received development assistance, all projects and programmes funded by development partners will be uploaded onto the Development Projects Management Information System (DEVPROMIS).

211. During 2023, Development Partners are expected to contribute US$750 million in support of various programmes and projects, thereby complementing the Government Budget. The support is, however, mostly delivered outside the budget, and hence, not included in the 2023 Fiscal Framework.

CONCLUSION

212. A strong economic recovery and transformation is well underway, notwithstanding the pandemic and new shocks. The proposed policy actions identified in this document seek to accelerate and deepen this transformation in pursuit of the Nation’s Vision of an Upper Middle-Income Status by 2030.

213. The macro-economic and fiscal forecasts and targets included in this Pre-Budget Strategy Paper are indicative, and hence, subject to review, taking into account developments and proposals that may arise during the 2023 Budget formulation process.

214. Furthermore, the above proposals are by no means exhaustive and Treasury welcomes further relevant inputs from stakeholders in order to ensure an inclusive and people centered Budget.

Hon. Prof. M. Ncube

Minister of Finance and Economic Development

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