Embargoed till end of delivery

THE MID-YEAR FISCAL POLICY STATEMENT

By

Hon. T. Biti MP

Minister of Finance

July 2013

Table of Contents

I. INTRODUCTION

1. The 2013 Mid-year Fiscal Policy Statement is being presented in compliance with Section 7 of the Public Finance Management Act [Chapter 22:19], which obliges the Minister responsible for Finance to provide full and transparent accounts, indicating the current and projected state of the economy, the public resources of Zimbabwe and the fiscal policy of Government.

2. The Statement also seeks to update the Nation at large on the fiscal and economic developments during the first half of the year and the outlook to December 2013.

3. The Statement also draws from the 2013 National Budget presented to Parliament on 15 November 2012.

4. In that Budget, the fundamental policies and interventions for unleashing Zimbabwe's growth potential and sustaining efficient and inclusive growth were anchored on the 15 Point Plan, which focussed on macro-economic stability, enhanced revenue generation, expenditure management, increased investment for growth, and debt resolution, among others.

5. Implementation of some of these strategic issues is on track, while some will require further Government attention during the last half of the year and beyond.

6. In this regard, the Staff Monitored Programme (SMP), approved by Cabinet and signed off with the International Monetary Fund (IMF) on 5 June 2013, will also guide macro-economic policy implementation during the last half of 2013 and into 2014, targeting debt relief and unlocking new inflows of development finance.

7. Implementation will be under the auspices of Zimbabwe's hybrid debt resolution strategy, the ***Zimbabwe Accelerated Arrears Clearance, Debt and Development Strategy (ZAADDS)***, as well as the ***Zimbabwe Accelerated Re-engagement Economic Programme (ZAREP)*** 2012 – 2015, launched by the Inclusive Government on 16 March 2012 to facilitate accelerated re-engagement with development partners.

8. Specific policy issues enunciated in ZAREP and the SMP evolve around:

- Fiscal consolidation and strengthening public financial management, including protecting investment in infrastructure and priority social spending;
- Completing the structural reform agenda, including in the areas of tax policy and administration, and increasing transparency in collection of revenues from the mining sector;
- Enhancing financial sector stability and reducing vulnerabilities;

- Completing the reforms at the Reserve Bank of Zimbabwe, especially the restructuring of its balance sheet and strengthening the banking sector regulatory and supervisory framework;
- Building international reserves; and
- Implementing a prudent borrowing strategy and strengthening debt management through the implementation of measures contained in the ZAADDS policy document.

9. Progress in the implementation of the SMP will be evaluated through bi-annual reviews for end June and end December 2013 performance targets.

10. Government has also initiated the process of developing an ***Interim Poverty Reduction Strategy Paper (I-PRSP) 2014 – 2015***, which seeks to implement the Medium Term Plan (MTP) 2010 – 2015, particularly focussing on interventions targeted at reducing poverty.

II. DOMESTIC ECONOMY

11. In the 2013 National Budget, it was indicated that the economy exhibited signs of growth slow-down and accordingly projected GDP growth of 5% in 2013, slightly above the estimated 4.4% for 2012.

12. Developments during the first half of 2013 indicate evidence of this stagnation, particularly through under-performance in the key sectors of agriculture and mining.

13. Accordingly, agriculture growth has been revised downwards from 6.4% to 5.4% in 2013. Similarly, projected mining output has fallen sharply, to give a revised growth of 5.3% from 17.1%. As a result, overall growth is now projected at 3.4%, shedding 1.6% from the 5% earlier envisaged.

Economic Growth (2009-2013)

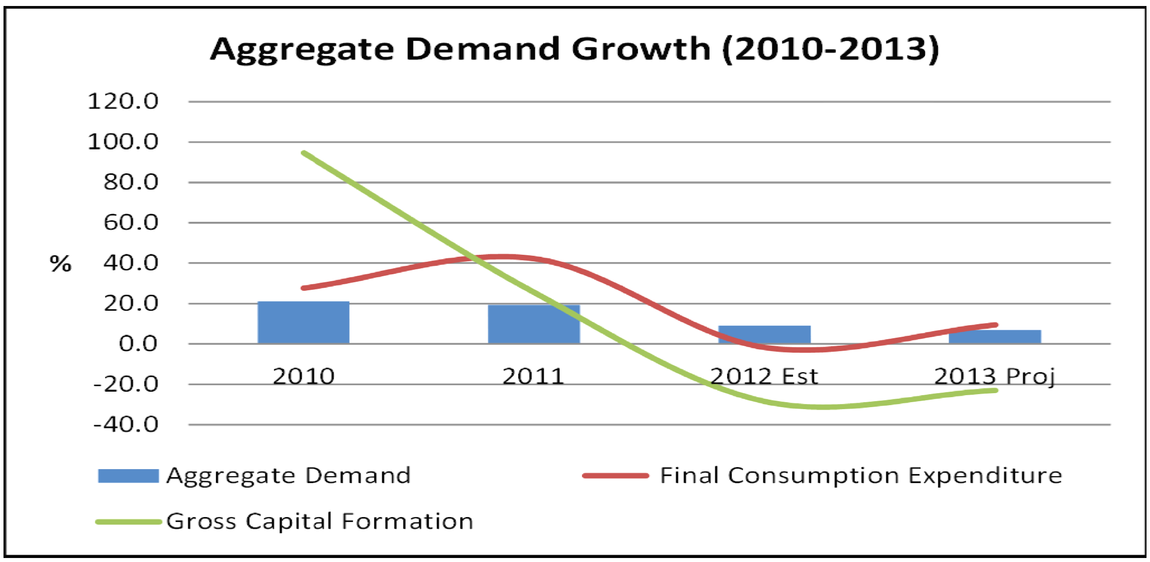
	2009 Actual	2010 Actual	2011 Actual	2012 Est.	2013 Orig Proj.	2013 Rev. Proj
Agriculture, hunting and fishing	37.8	34.8	10.4	6	6.4	5.4
Mining and quarrying	18.9	60.1	43.2	8	17.1	5.3
Manufacturing	17	-4	14.4	2.3	1.5	1.5
Electricity and water	1.9	20	15	0	2.2	0.3
Construction	2.1	4.9	3.2	4.9	5.4	3.2
Finance and insurance	4.5	5.6	2	5.2	6	3.8
Real estate	2	4.9	3.2	4.9	5.4	3.2
Distribution, hotels and restaurants	6.5	8.8	4.3	3.1	4	4.4
Transport and communication	2.2	20.5	3.6	6	3.4	3.7
GDP at market prices	**5.4**	**9.6**	**10.6**	**4.4**	**5**	**3.4**

Source: RBZ, MOF, ZIMSTAT

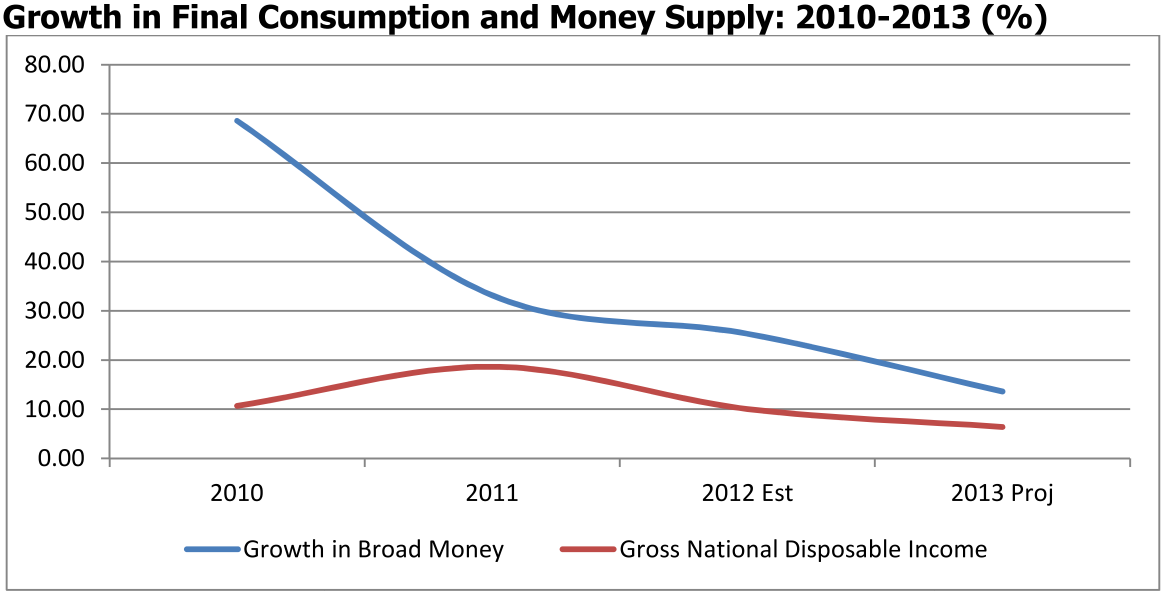
Aggregate Demand

14. The projected economic growth decline is also reflected by slowdown in growth of aggregate demand, which is now projected to grow by 7% in 2013, down from the original forecast of 12%.

15. The 7% growth in aggregate demand will be supported by rising final consumption, notwithstanding marginal growth in disposable income due to the liquidity crunch as indicated by asymptotic growth in money supply.



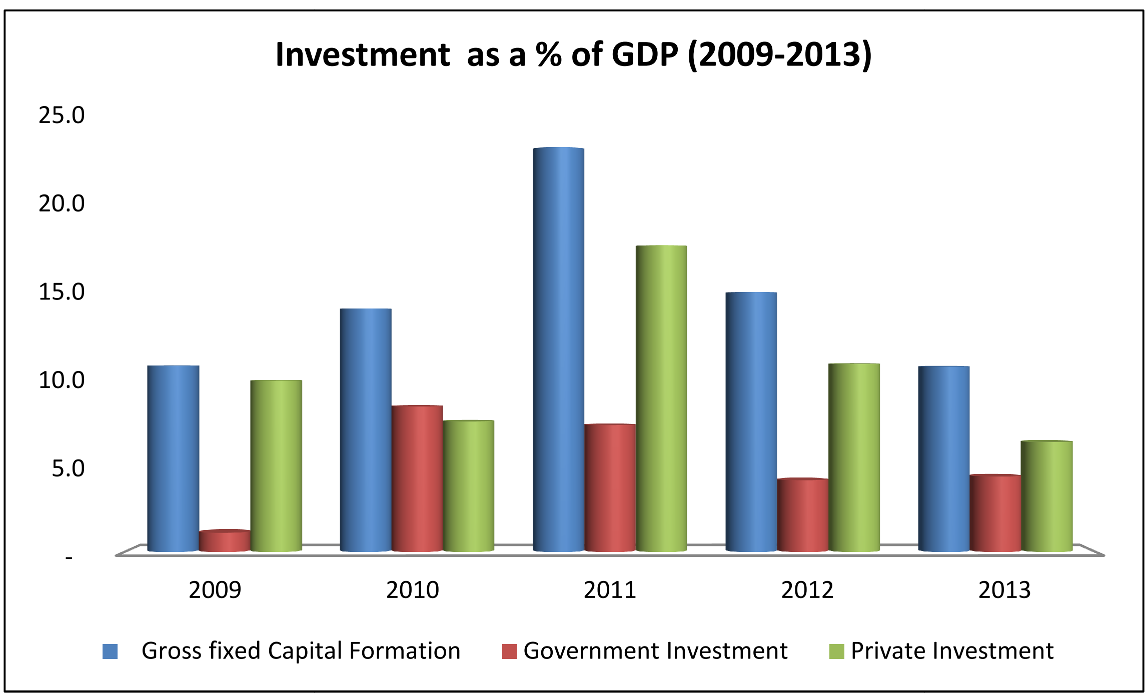
Growth in Final Consumption and Money Supply: 2010-2013 (%)



Investment

16. While domestic investment was primarily limited by the liquidity challenges prevailing in the economy, foreign direct investment was mainly constrained by perceived risks associated with the Elections as well as the Indigenisation and Economic Empowerment Regulations, all of which have seen investors adopting a cautionary "*wait and see attitude*".

17. Resultantly, private investment is projected at 6.3% of GDP in 2013. On the other hand, public investment's original target of 4.4% remains low and unachievable due to over-crowding from unsustainably high recurrent expenditures of 32.6% of GDP.



Export and Imports

18. In terms of the external absorption, a slight improvement is anticipated due to marginal growth in exports. The slow growth of exports has been attributed to lack of competitiveness and downside risks associated with the fragile global economy.

19. A slowdown in import growth is also expected as a result of low investment absorption and squeezed disposable incomes.

Revised Macro-Economic Framework

20. The above economic developments have necessitated a review of the 2013 Macro-economic Framework, with overall GDP growth as alluded to above, now revised downwards to 3.4%, while exports and broad money were reduced to US$4.5 billion and US$4.4 billion, respectively.

21. Government revenues are, however, projected to slightly rise above the original target, not on account of improved economic activity, but rather in view of the new revenue measures announced during the first quarter of 2013.

22. The Table below shows the Revised Macro-economic Framework for 2013.

Revised Macro-economic Framework 2013

	2012 Est	2013 Initial Proj	2013 Revised Proj
GDP Growth	4.4%	5%	3.4%
Inflation (Annual Average)	3.7%	5%	3.9%
Government Revenues US$m	3,496	3,844	3,906
Government Expenditures US$m	3,562	3,844	
Exports of Goods and Services US$m	4,328	5,201	4,536
Imports of Goods and Services US$m	7,456	8,069	7,649
Current Account Balance US$m	-2,407	-2,740	-2,358
Broad Money Supply US$m	3,886	4,473	4,416
Domestic Credit US$m	3,788	3,975	4,243

Source: Macro-economic Team (MEPIP, MoF, RBZ and ZIMSTAT)

Sector Performance

Agriculture

23. The downward revision in agriculture growth to 5.4% was on account of anticipated declines in maize, groundnuts and cotton output owing to the poor 2012/13 rainy season.

Agriculture Production ("000" tons)

Crop	Weight	2012 Initial Projection	2012 Estimate	2013 Initial Projection	2013 Projection
Tobacco	*25.5*	*144.5*	144.5	*170*	170
Maize	*14*	*968*	968	*1,100*	798.6
Beef	*10.2*	*94*	94.1	*94.1*	94.5
Cotton	*12.5*	*350*	350	*283*	283
Sugar	*6.8*	*4,476.9*	3,925.5	*4,500*	4,159
Horticulture	*6.5*	*51*	51	*54.3*	55
Poultry	*4.8*	*70.5*	87.7	*80*	100.7
Groundnuts	*3.2*	*120*	120	*130*	86.7
Wheat	*3.6*	*17*	33.7	*17.4*	33
Dairy (m lt)	*2.9*	*64.5*	67.2	*70*	76.3
Coffee	*2.1*	*1.9*	1.9	*1.5*	1.5
Soybeans	*1.9*	*70.5*	70.5	*114.8*	76.9
Tea	*1.9*	*24.5*	24.5	*25*	24.5
Paprika	*1.1*	*4*	4	*4.5*	4.5
Pork	*0.8*	*13.8*	23	*15*	25.7
Wildlife	*0.6*	*48*	48	*49*	49
Sorghum	*0.6*	*64.8*	64.8	*114*	69.2
Barley	*0.4*	*44*	44	*44*	44

Crop	Weight	2012 Initial Projection	2012 Estimate	2013 Initial Projection	2013 Projection
Sheep & goats	*0.3*	*6.3*	6.3	*3*	6.5
Sunflower seeds	*0.2*	*15*	15	*17*	17
Ostriches	*0.1*	*17*	17	*19*	19
Overall Growth		4.1	6%	6.4	**5.4%**

Source : MoAMED, LMAC, Agriculture Associations

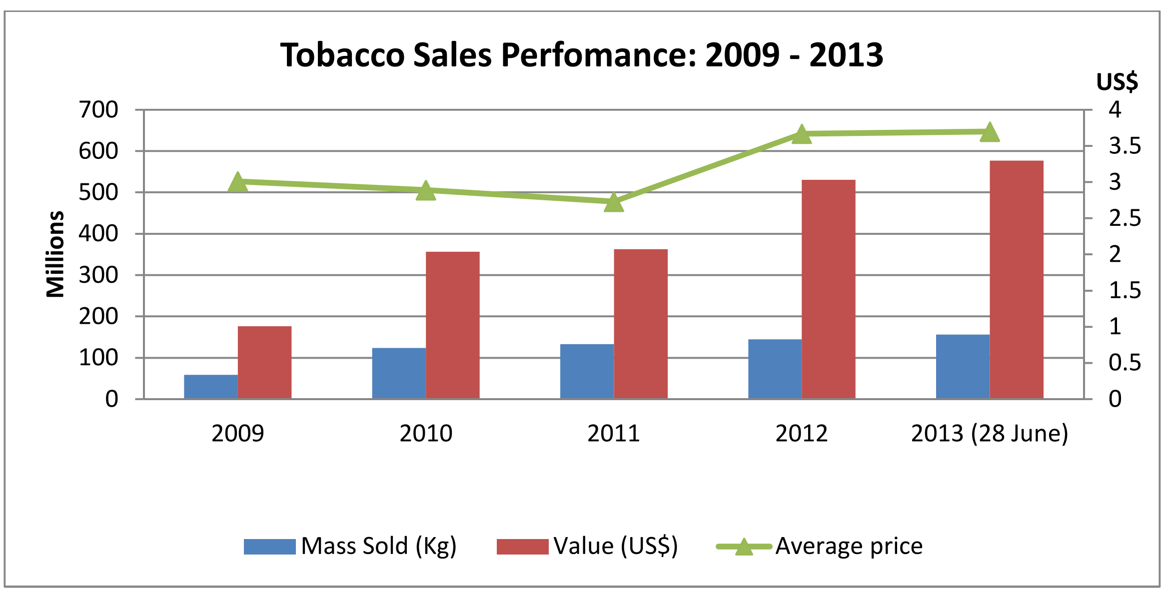
Tobacco

24. By 18 July 2013, a total of 162 million kgs of tobacco valued at US$597.9 million had been sold at an average price of US$3.70/kg, as shown in the Table below.

Tobacco Deliveries as at 18 July 2013

Seasonal	Total Auction	Contract	Total 2013	Total 2012	% Change
Mass sold(kg)	53,389,042	108,796,211	162,185,253	137,252,047	18.17
Value(US$)	189,025,361	408,917,979	597,943,340	506,228,711	18
Avg. price US$/kg	3.54	3.76	3.69	3.69	(0.04)

Source: TIMB



Source: TIMB

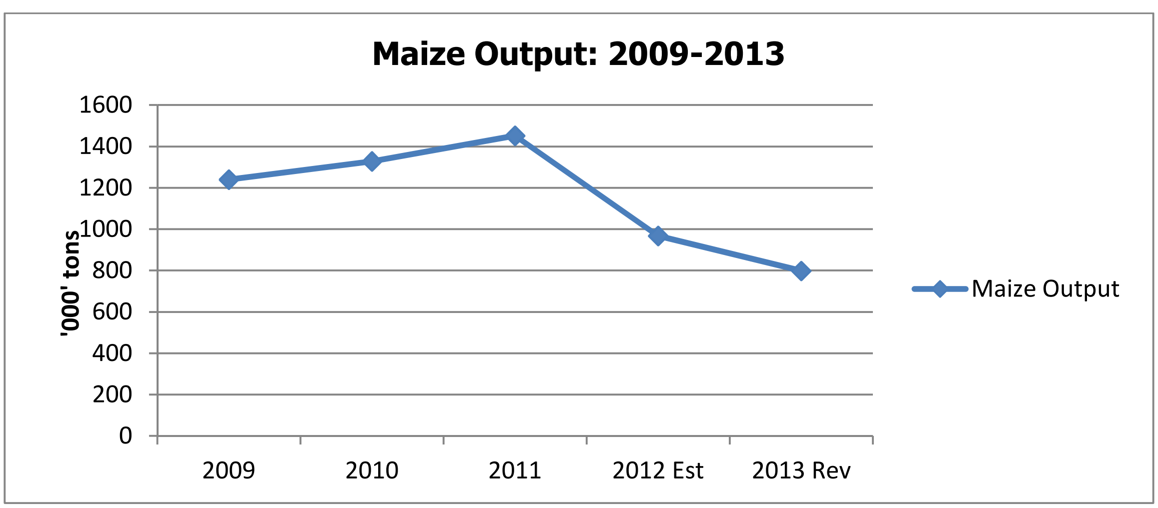
Maize

25. The Second Round Crop and Livestock Assessment Report from the Ministry of Agriculture indicates that 798 600 tons of maize will be realised in 2013, down from an initial projection of 1 100 000 tons. This is a further reduction from the 968 000 tons recorded in 2012.

26. The poor maize output is mainly as a result of the erratic rainfall pattern witnessed during the 2012/13 season, which affected yields and hectarage. Out of the 1 442 845 hectares in area planted, 177 605 hectares were written off. This reduced harvested area from 1 265 237 hectares to 967 229 during the same period.

27. Furthermore, yields declined from 1 ton/hectare in 2012 to 0.63 ton/hectare in 2013.

28. The graph below shows maize output since 2009.



Grain Imports

29. With the reduced output levels, Government has resorted to the importation of grain from surplus regional countries. To this end, arrangements to import 150 000 tons of maize from Zambia at a cost of US$70.6 million have been made. This is meant to augment stocks in the Strategic Grain Reserves.

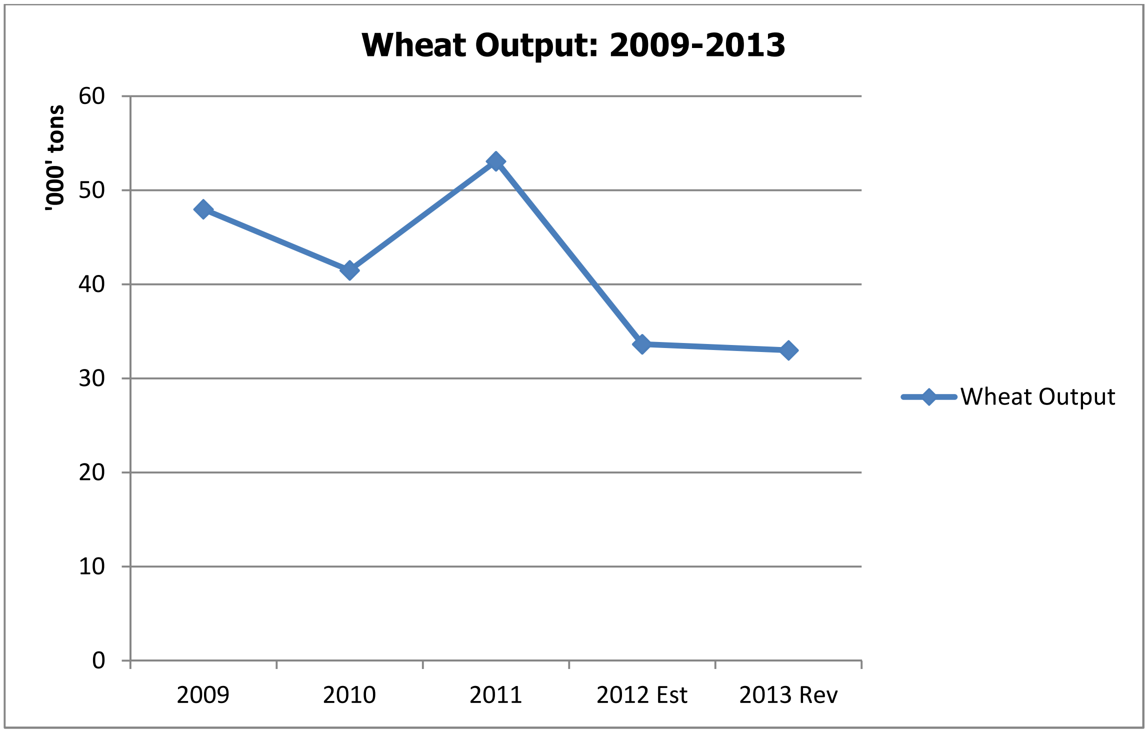
30. To compliment Government efforts, the Grain Millers Association has indicated commitment to import up to 160 000 tons of maize to meet demand on the local market.

Wheat

31. Winter wheat production, which is fed by irrigation, continues to suffer numerous challenges which threaten viability. These include low dam levels due to poor rains, intermittant power supply, rising production costs and reluctance of financial institutions to fund production.

32. Given the above, wheat output is projected at 33 000 tons in 2013, 1% lower than the 33 700 tons recorded last year.

33. The graph below shows wheat output since 2009.

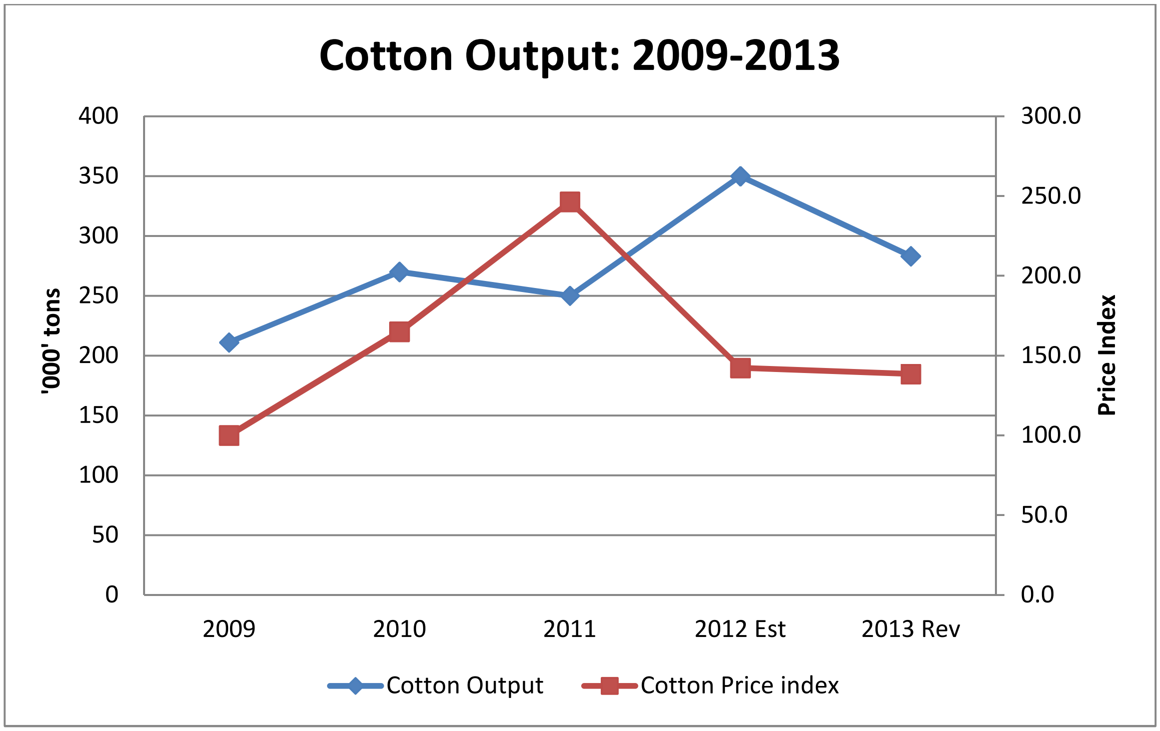


Cotton

34. Notwithstanding the disputes around cotton prices, output is expected to remain within the forecast of about 283 000 tons in 2013.

35. In the outlook period, continued production of this crop is being threatened by low prices.

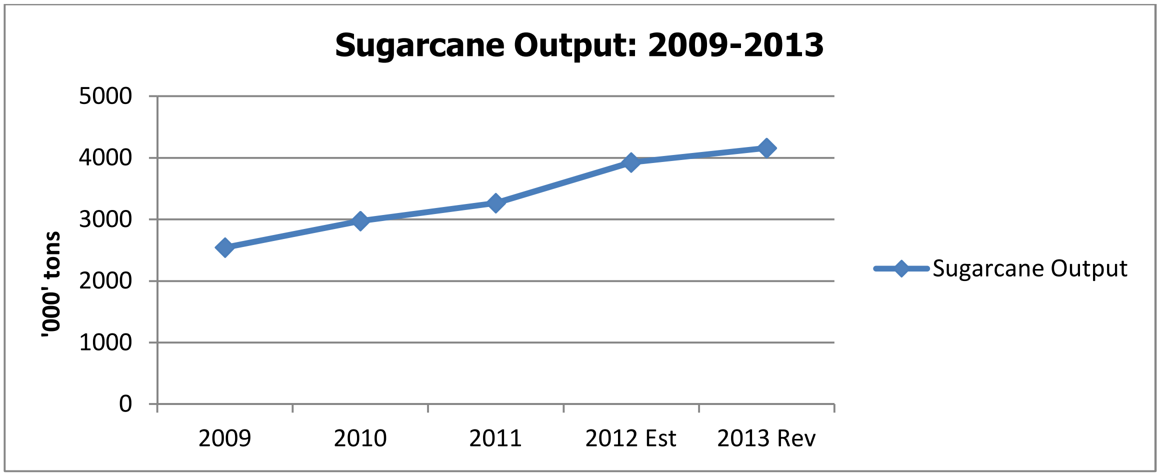
36. The graph below shows cotton output levels relative to the price index since 2009.



Sugar Cane

37. Sugar cane output maintained its upward trajectory, with output projected at 4.1 million tons in 2013, up from the 3.9 million tons recorded in 2012. This is, however, down from an intial projection of 4.5 million tons. The revisions have been necessitated by the decreased availability of water for irrigation following another poor rainy season that has seen some dams' water levels falling drastically.

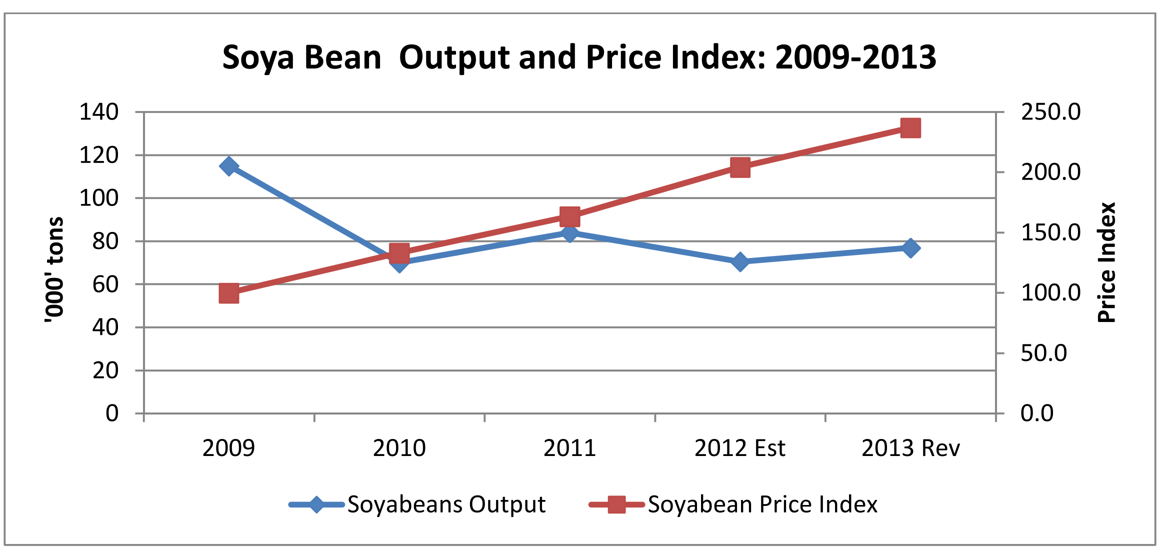
38. The graph below shows the trend in sugarcane production from 2009 to 2013.



Soya Beans

39. In 2013, soya bean output, which was initially projected at 114 800 tons, has been revised downwards to 76 900 tons due to lower yields as a result of a poor rainy season. This falls far short of the national requirement of about 220 000 tons of soya beans per year.

40. The graph below shows the soya bean output and price index since 2009.

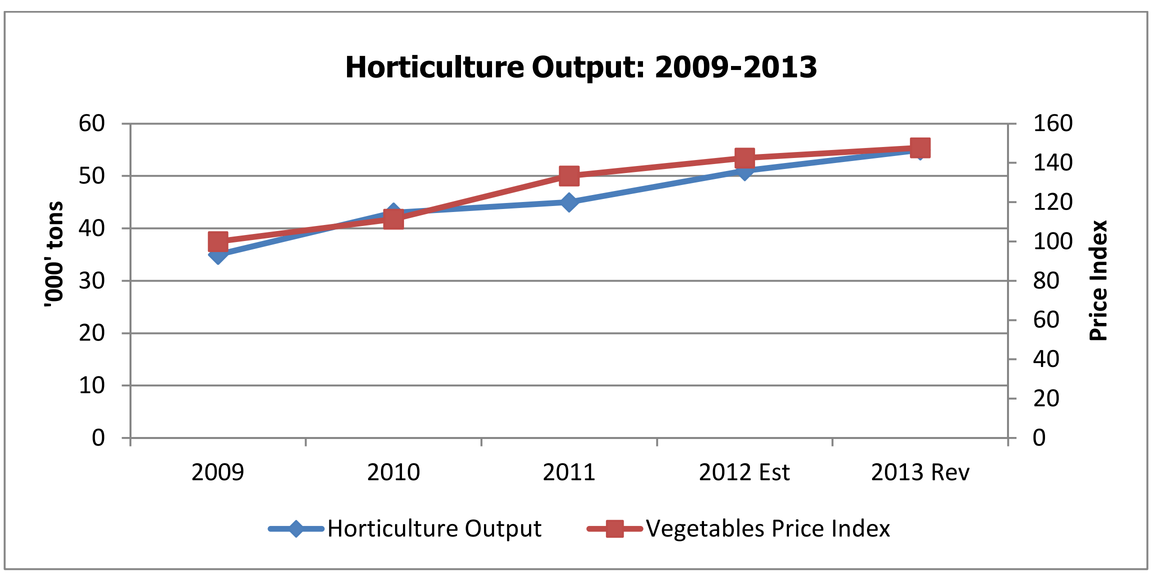


Horticulture

41. Horticultural production is projected to marginally increase from 54 300 tons to 55 000 tons in 2013. This growth is mainly driven by an increase in the harvested area for citrus fruit, mango, Irish potato and macadamia nuts.

42. However, future prospects are being threatened by cheap imports particularly from neighboring countries that have flooded the market and crowded out local producers, dilapidated irrigation infrastructure and lack of technical skills and expertise by local farmers in handling fresh and highly perishable produce in line with best practices.

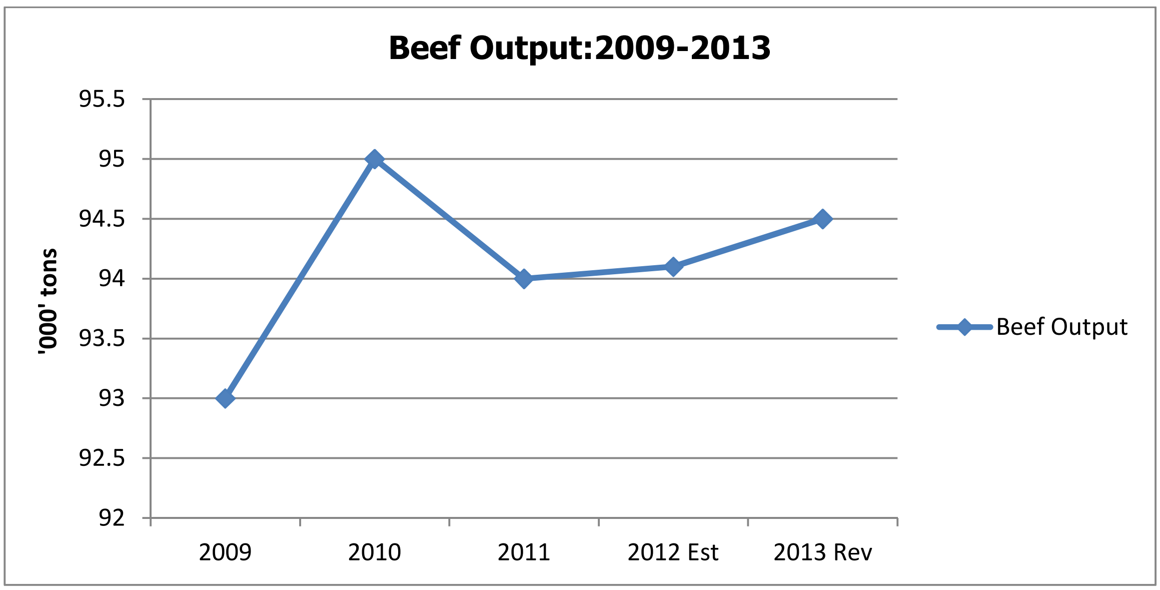
43. Output, which is moving in line with the Vegetables Price Index for the period 2009 to 2013, is shown in the graph below.



Beef

44. Beef production is expected to marginally increase from an initial projection of 94 100 tons to 94 500 tons in 2013. The growth in beef production is being driven by increased off take from 3.5% to 6% as farmers off-load stocks owing to the drought.

45. Beef production trend since 2009 is shown in the graph below.



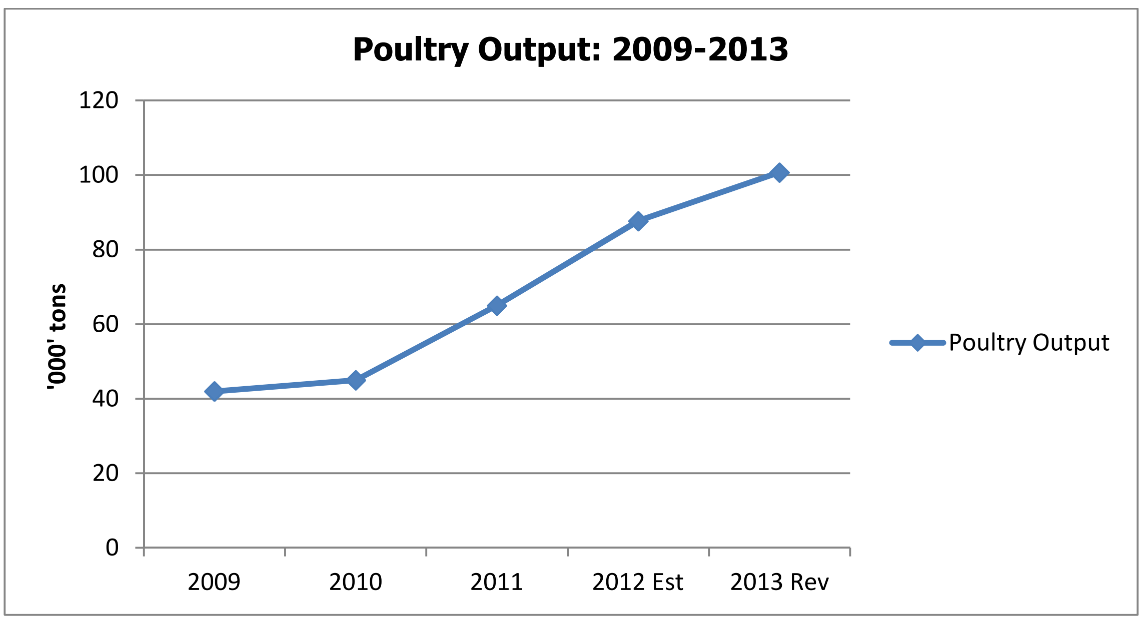
Poultry

46. Poultry production is expected to increase to 100 700 tons, up from an initial projection of 80 000 tons in 2013. This is much higher than the 87 700 tons realised in 2012. This growth is mainly due to the increased number of new players in the industry, particularly small scale producers.

47. The sector is also benefitting from fair playing field for both local and imported products.

48. In the outlook period, the industry is expected to continue expanding, largely due to the increased number of parent stocks being retained.

49. The graph below shows the growth in output levels since 2009.

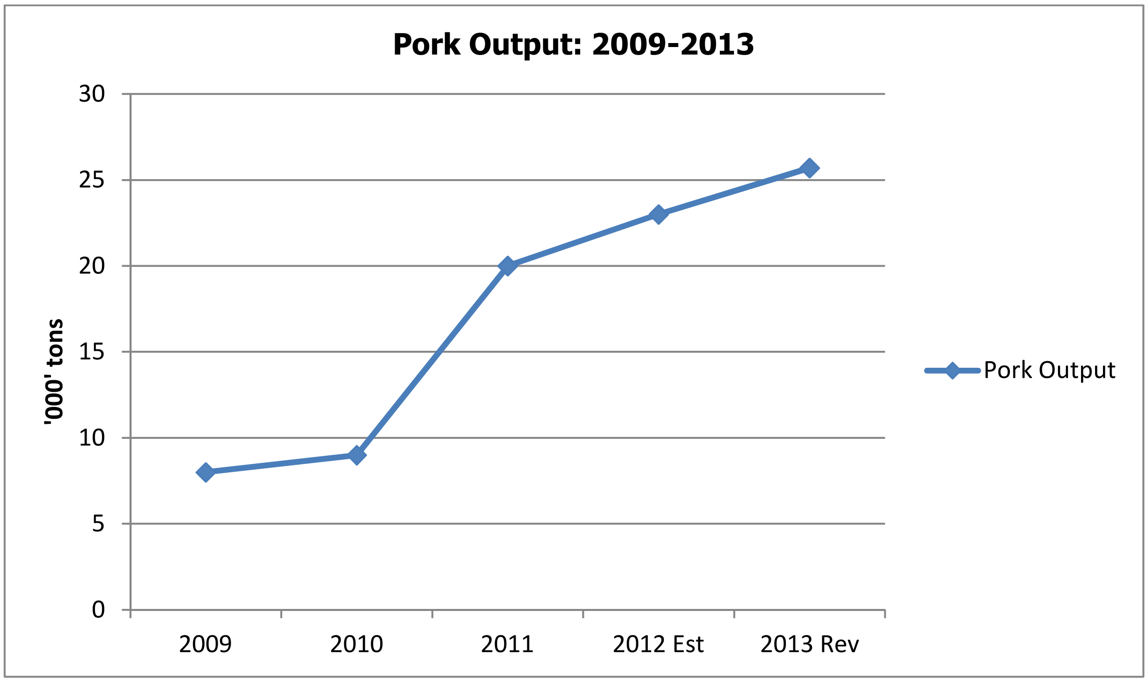


Pork

50. Pork production is projected at 25 700 tons up from an initial projection of 15 000 tons. This growth is mainly on account of the

sow herd which is anticipated to increase from 67 468 to around 73 335.

51. The production levels since 2009 are as shown in the graph below.



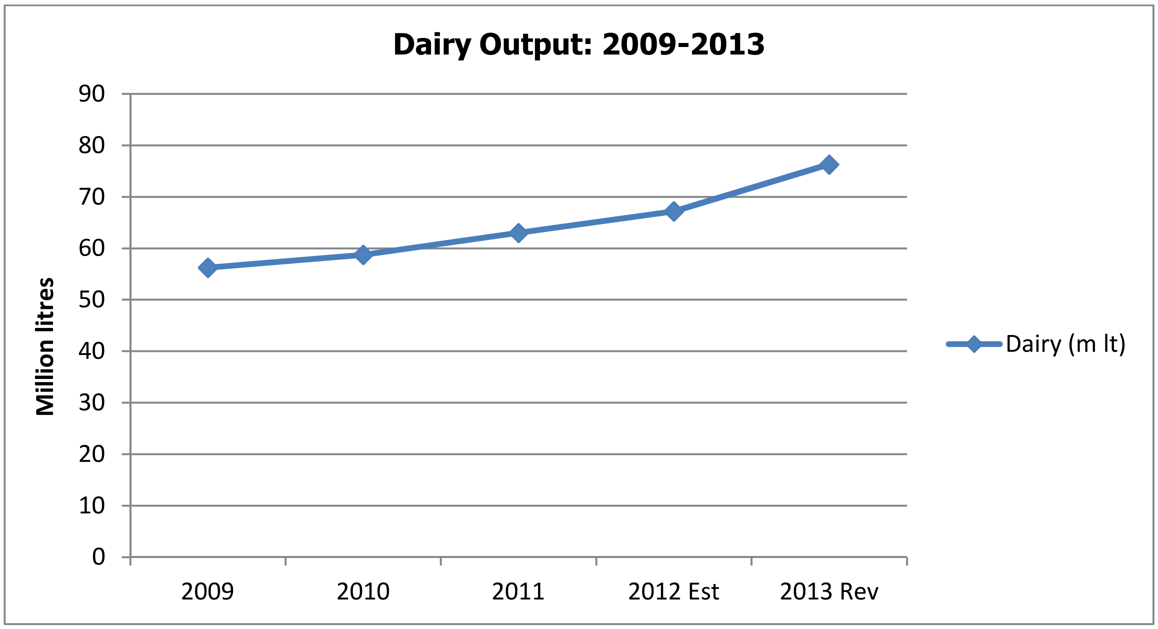
Dairy

52. Dairy output was revised to 76.3 million litres in 2013, up from an initial target of 70 million litres. This is against an annual national demand of 96 million litres.

53. The growth in milk production is driven by increased support to farmers in the form of heifers, other inputs as well as working capital.

54. The national dairy herd currently stands at 26 000 cows with 223 registered dairy operators.

55. Dairy output since 2009 is shown in the graph below.



Livestock Development

56. Poor pasture management, particularly in communal areas, has decimated the national herd of cattle and goats, particularly in the Matabeleland, Midlands and Masvingo regions, following persistent droughts that have been experienced of late, coupled with increased veld fires and livestock diseases. Farmers have, therefore, been forced to sell some of their old and unproductive beasts in order to buy stock feeds for the remaining herd.

Way Forward

57. Given the state of agriculture, the sector's potential could be increased through increased funding, machanisation, as well as irrigation development in the form of dams construction and infrastructure rehabilitation.

58. Affordability of such critical crop inputs as fertilizers and pesticides as well as expanding extension services and training are also necessary.

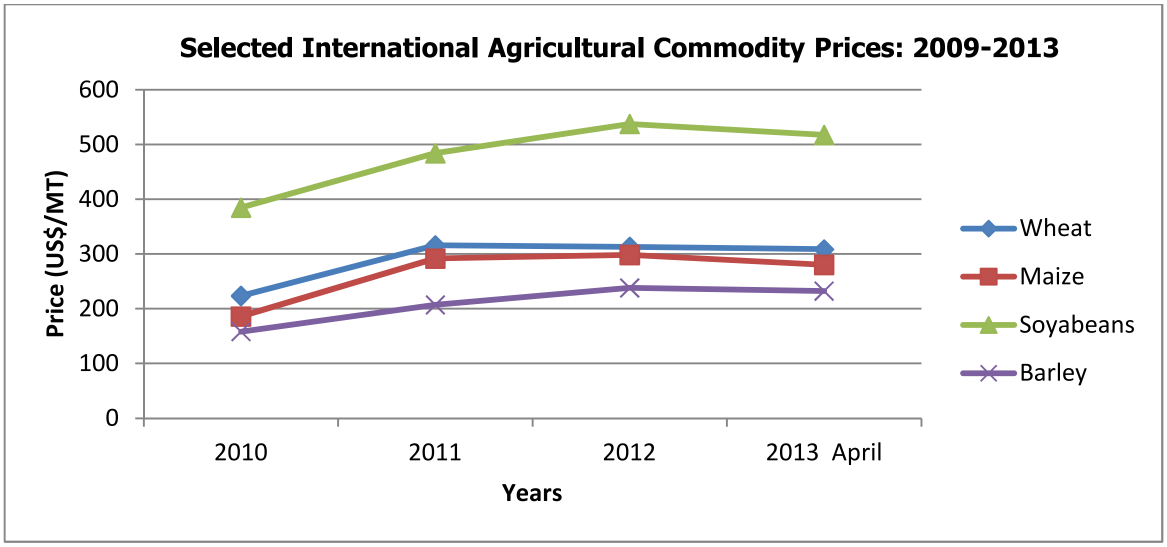
Agriculture Commodity Prices

59. There has been a general increase in the prices of selected agricultural commodity prices on the international market since 2009. According to the World Economic Outlook April 2013 Report, this has largely been as a result of the transmission effect of increased fuel and fertilizer prices.

Selected International Commodity Prices

	2010	2011	2012	2013 April
Wheat ($/mt)	223.7	316.2	313.33	308.7
Maize ($/mt)	186	291.8	298.4	280.3
Soyabeans ($/mt)	384.9	484.2	537.8	517.8
Barley ($/mt)	158.4	207.2	238.2	232.4

Source: IMF



60. According to the World Economic Outlook Report, Brazil is poised to become the world's largest maize exporter. This is as a result of a combination of successive bumper harvests, reduced domestic use, available export capacity, and high U.S. maize prices fueled by the historic 2012 drought. Farmers in Brazil responded to favourable maize prices by increasing planted area in 2011/12, resulting in a record crop last season.

Agriculture Commodity Exchange

61. In order to ensure efficiency in the marketing of the country's agricultural produce, Government is in the process of establishing an Agriculture Commodity Exchange.

62. The Exchange should bring about market discipline, eliminate delayed payments to farmers, as well as ensure a competitive price regime for agricultural produce.

63. In this regard, an amount of US$500 000 has been disbursed towards the establishment of the Commodity Exchange.

64. It is anticipated that the Exchange will be operational during the forthcoming grain marketing season.

Mining

65. The mining sector, with initial growth projected at 17.1% in 2013, was identified as one of the key drivers of economic recovery.

66. Developments during the first half of the year, however, indicate that such constraints as falling international mineral prices, against rising mineral production costs, and perennial challenges related to lack of long term financing have had a profound effect on gold and diamond mining houses.

67. Succumbing to the above challenges, the 2013 mining sector growth was revised downwards to 5.3%.

68. The Table below shows a summary of the main minerals output.

Summary of Mineral Output for 2011-2013

Mineral	2011 Actual	2012 Proj	2012 Actual	Cumulative to May 2013	Initial 2013 Proj	2013 Revised Proj
Gold (kg)	12 993	15000	14 743	5,580.8	17 000	15 000
Platinum(kg)	10 827	12.000	10 524	5,366.2	12 500	12 500
Palladium (kg)	8 442	9600	8,136.24	4,093.3	10 000	10 000
Nickel (tons)	7 992	8800	7 899	3,869.5	10 000	10 000
Chrome (tons)	599 079	750 000	408 475	97,964	282,000	282 000
Coal (tons)	2 562 054	2 000 000	2 265 000	1,011,813	2 000 000	2 000 000
Diamond (crts)	8 718 570	12 000 000	12 014 802	2 771 530.6	16 900 000	12 500 000

Ministry Of Mines, Chamber of Mines and ZIMSTAT

Performance of Selected Minerals in 2012/2013

Mineral	Cumulative to May 2012	Cumulative to May 2013
Gold/kg	5,910.1	5,580.8
Platinum/kg	4,709	5,366.2
Palladium/kg	3,639.7	4,093.3
Nickel/t	3,535.8	3,869.5
Chrome	209,312	119,618
Coal/t	1,019,184	1,011,813
Diamond (crts)	3,127,176.9	2,771,530.6

Ministry Of Mines, Chamber of Mines and ZIMSTAT

Gold

69. Gold output was 5 580.8 kg during the first five months of 2013, compared to 5 910.1 kg produced during the comparative period in 2012.

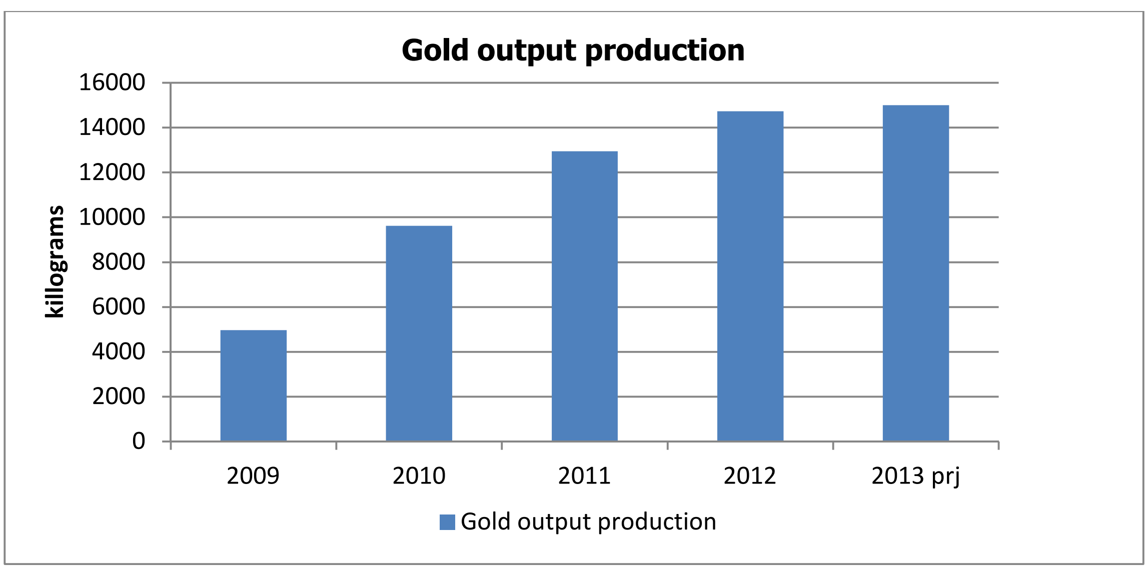
70. The under-performance of gold during the above-mentioned period was largely attributed to the leach tank accident which affected operations at Freda Rebecca mine in February. The accident resulted

in the suspension of plant processing operations to allow for repairs while measures to restore safety were being undertaken. However, normal production recommenced on 1 April 2013.

71. The continued decline in international gold prices has also weighed down on gold output volumes during the first four months of 2013. Metallon Gold, which is the largest gold mining house in Zimbabwe, recently rationalised its operations by switching from shaft mining, which is relatively costly, to predominantly open-cast operations, especially at two of its loss-making mines, Arcturus and Redwing.

72. Owing to the above challenges, the gold output projection for 2013 was revised downwards from the initial 17 000 to 15 000 kgs.

73. The graph below shows gold output production from 2009.

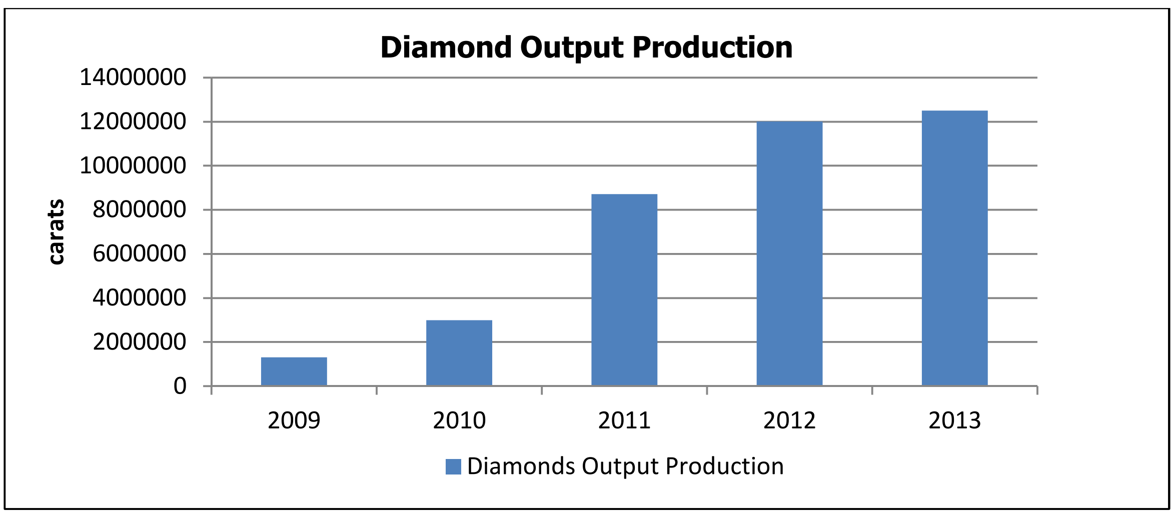


Ministry Of Mines, Chamber of Mines and ZIMSTAT

Diamonds

74. Diamond production slipped 11.4% to 2.8 million carats during the first quarter of 2013 compared to 3.1 million carats produced during the same period in 2012. The decline was attributed to diamond producers shifting from alluvial mining to conglomerates which are relatively costly to produce. Owing to these developments, the diamond output target for 2013 has been revised downwards from 16.5 million carats to 12.5 million carats.

75. The graph below shows diamond production from 2009.



Ministry Of Mines, Chamber of Mines and ZIMSTAT

Platinum

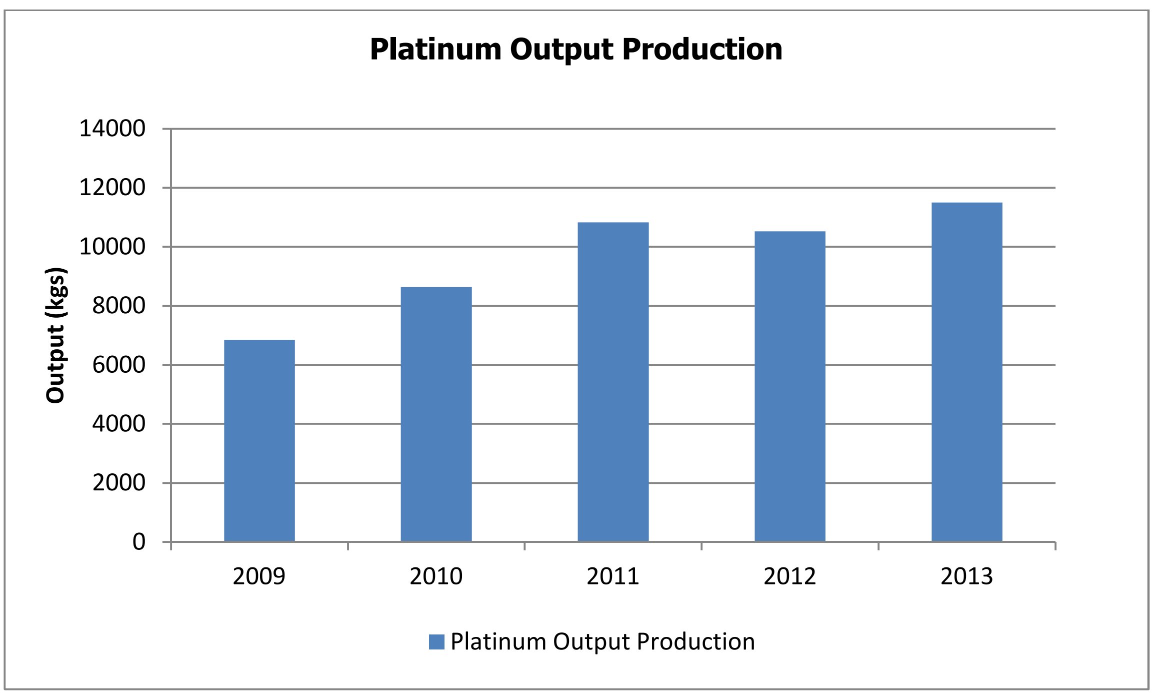
76. Platinum production performed well during the first five months of 2013, compared to the same period in 2012, mainly benefiting from

the need to boost output volumes in support of the required output levels to sustain the proposed Platinum Refinery Plant aimed at promoting value addition.

77. During the period, some 5 366.2 kgs of platinum were produced, compared to 4 709.1 kg produced during the same period in 2012.

78. Notwithstanding the fall in international prices during the period March – May 2013, platinum production is expected to remain in line with the initial 2013 projection of 12 500kg.

79. The graph below shows platinum production from 2009.

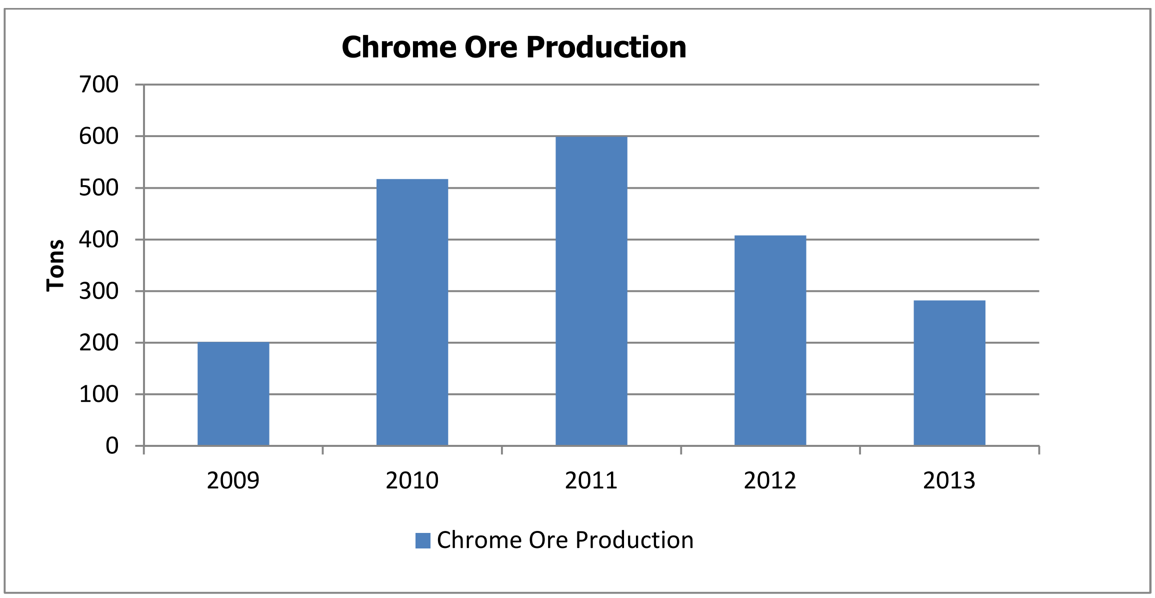


Ministry Of Mines, Chamber of Mines and ZIMSTAT

Chrome

80. A total of 119 618 tons were produced during the first five months of 2013, with the expectation that a target of 282 000 tons of the metal will be achieved in 2013 provided that Government lifts the ban on chrome ore exports and that viability of local chrome smelters improves.

81. The graph below shows chrome ore production from 2009.



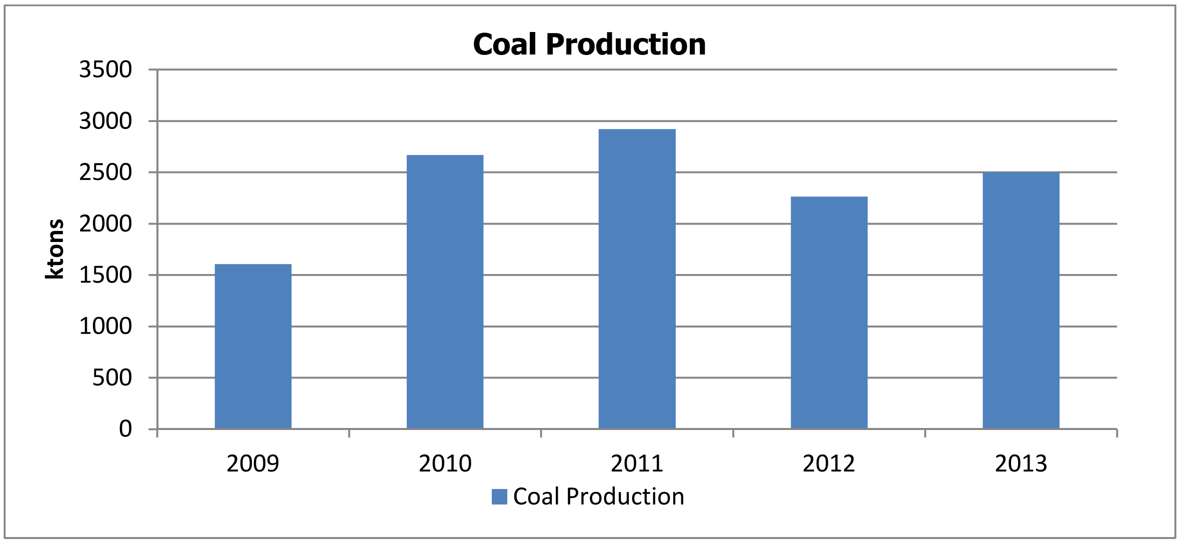
Ministry Of Mines, Chamber of Mines and ZIMSTAT

Coal

82. Coal production stood at 1 011 813 tons during the first five months of 2013, representing 40 % of the 2013 annual target of 2.5 million tons. Coal output is benefiting from strong production by Makomo

Resources which is significantly complementing Hwange Colliery output volumes.

83. The graph below shows coal production from 2009.



Ministry Of Mines, Chamber of Mines and ZIMSTAT

Nickel

84. Nickel output for the first five months of 2013 was 3 869.5 tons, compared to 3 535.8 tons produced during the same period in 2012, representing 39% of the 2013 annual target of 10 000 tons.

85. Bindura Nickel Corporation's (BNC) Trojan Mine, which is the primary producer of nickel in Zimbabwe, was placed under care and maintenance in 2008 on the back of poor performing nickel prices, operational challenges, unfavourable exchange rates and periodic power outages, among other challenges.

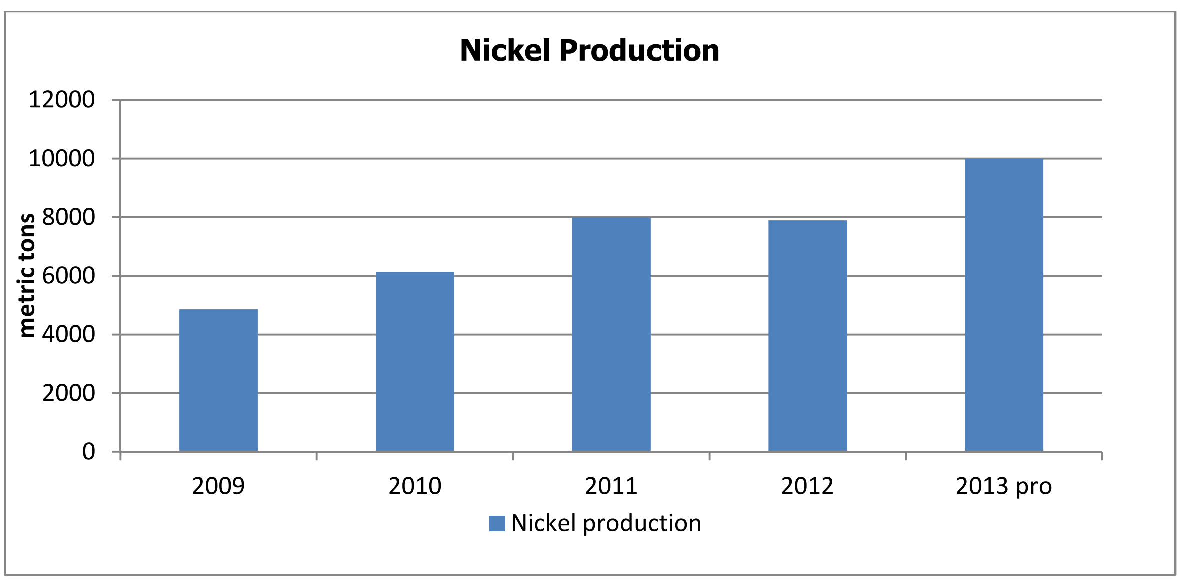
86. As a result, nickel output during the past four years was a by-product of platinum production.

87. However, this year, BNC resumed operations at its Trojan Mine following refurbishment of the surface milling, flotation, tailings and concentrate-handling facilities.

88. The processing plant is now producing concentrate of saleable quantity and quality. However, output is still very low as some of the refurbishment activities are yet to be finalised.

89. Hence, going forward, nickel output is projected to significantly improve of the 10 000 tons projected for 2013.

90. The graph below shows nickel output production from 2009.



Ministry Of Mines, Chamber of Mines and ZIMSTAT

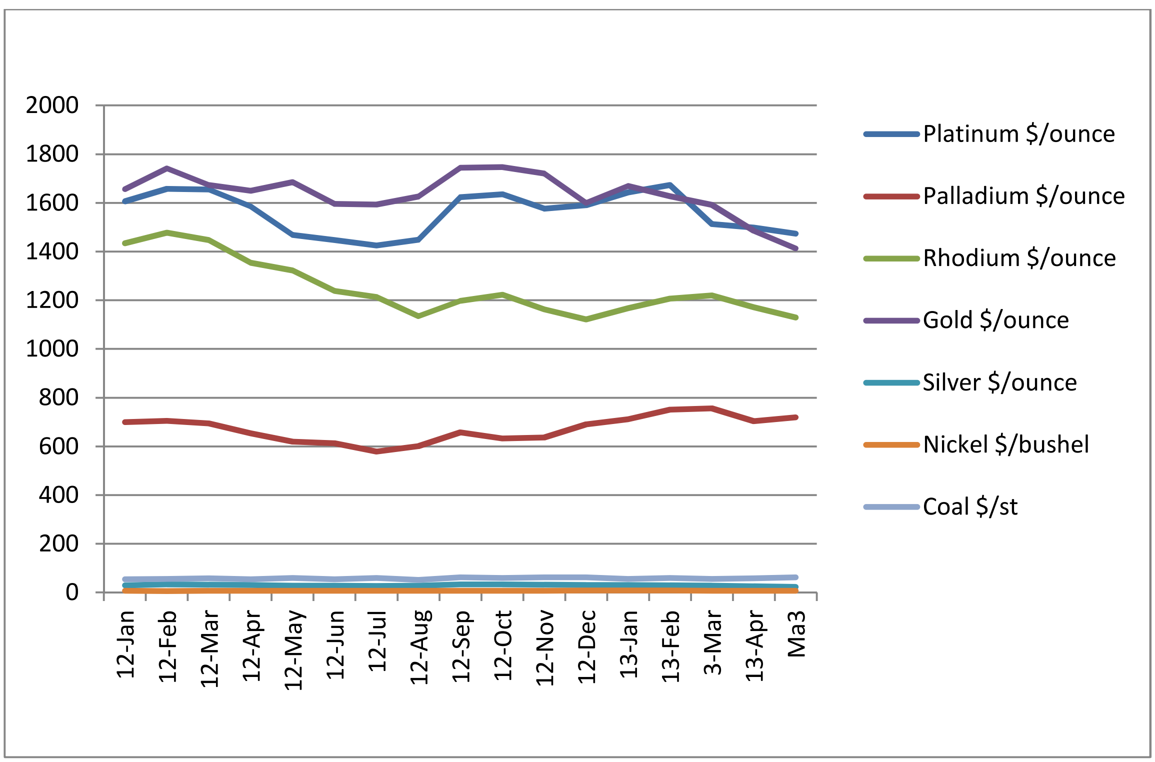
International Mineral Prices

91. International mineral prices continued to slacken during the first five months of 2013 as shown below.

Monthly Average Mineral Prices For 2012-2013 (US$)

Commodity	2012												2013				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Platinum $/oz	1606	1657	1655	1585	1469	1447	1425	1449	1623	1635	1576	1591	1643	1674	1513	1499	1474
Palladium $/ oz	699	705	694	654	619	613	579	601	657	633	636	691	712	751	756	703	720
Rhodium $/ oz	134	1477	1448	1354	1322	1238	1214	1134	1198	1222	1162	1122	1168	1207	1220	1172	1129
Gold $/ oz	1656	1742	1673	1650	1685	1596	1593	1626	1744	1747	1721	1600	1670.	1627	1592	1485	1413
Silver $/ oz	30	34	32	31	28	28	27	28	33	33	32	31	31	30	28	25.19	23
Nickel $/bushel	7	6	7	7	7	7	7	7	7	7	7	8	8	8	7	7	7
Coal $/st	55	56	58	55	60	55	60	52	62	60	62	62	56	60	56	58	62

kitco charts and data



kitco charts and data

Manufacturing

92. The perennial constraints affecting the manufacturing sector remained unresolved during the first half of 2013. These challenges include, liquidity challenges leading to high borrowing costs, lack of competitiveness due to antiquated machinery, high utility charges (power and water), and inflexible labour laws resulting in high employment costs against low productivity.

93. As a result, activity remained subdued in struggling sub-sectors such as textiles and ginning, clothing and footwear, paper printing and publishing, chemicals and petroleum products.

94. However, high output volumes remained evident in the beverages, metals and metal products, wood and furniture sectors, with management innovativeness in some companies seeing them progressively investing in new plants and machinery, ploughing back their profits for refurbishment in the absence of meaningful external investment inflows.

95. In this regard, the sector's growth is, therefore, expected to remain at 1.5% in 2013 as originally forecasted.

96. The Table below shows the volume of manufacturing indices.

Index of Manufacturing Output

	2009	2010	2011	2012	2013 proj
Food Stuffs	38.9	43.2	48.6	49.2	51.1
Drinks, Tobacco and beverages	53.7	69.1	72.3	63.3	65
Textiles and Ginning	12.4	19.9	26.7	13.5	13
Clothing and wear	18.2	15.6	9.7	9.7	9.8
Wood and Furniture	85.2	85.3	89.5	95.5	99
Paper, Printing and Publishing	17.3	16.3	18.6	19.2	19.7
Chemical and Petroleum Products	23.2	25.7	32.6	33.5	34.5
Non-metallic Mineral Products	71.4	76.7	69.4	72	73.2
Metals and Metal Products	31.9	41.2	64.2	66	66
Transport Equipment	41.3	35.2	32.5	33	33.5
Other Manufactured Goods	31.4	44.8	57.7	58.1	58.4

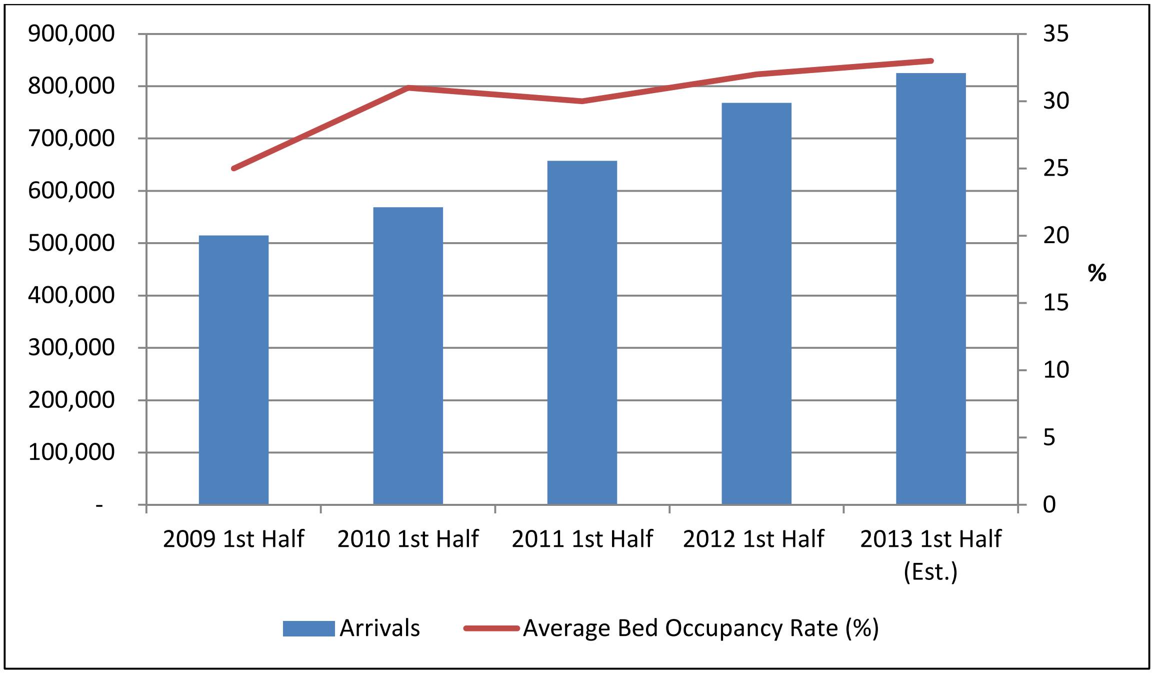
Source: ZIMSTAT, MoF

Tourism

97. In the first half of 2013, tourist arrivals are estimated to have increased by 17%, rising from 767 939 in 2012 to 824 922 in 2013, benefitting from improved arrivals from all major source markets.

98. Increasing regional trade and commerce also contributed immensely to the growth through indirect transiting tourists and business tourists as witnessed by the current 40% increase in business tourists and 65% increase in shopping tourists during the first quarter.

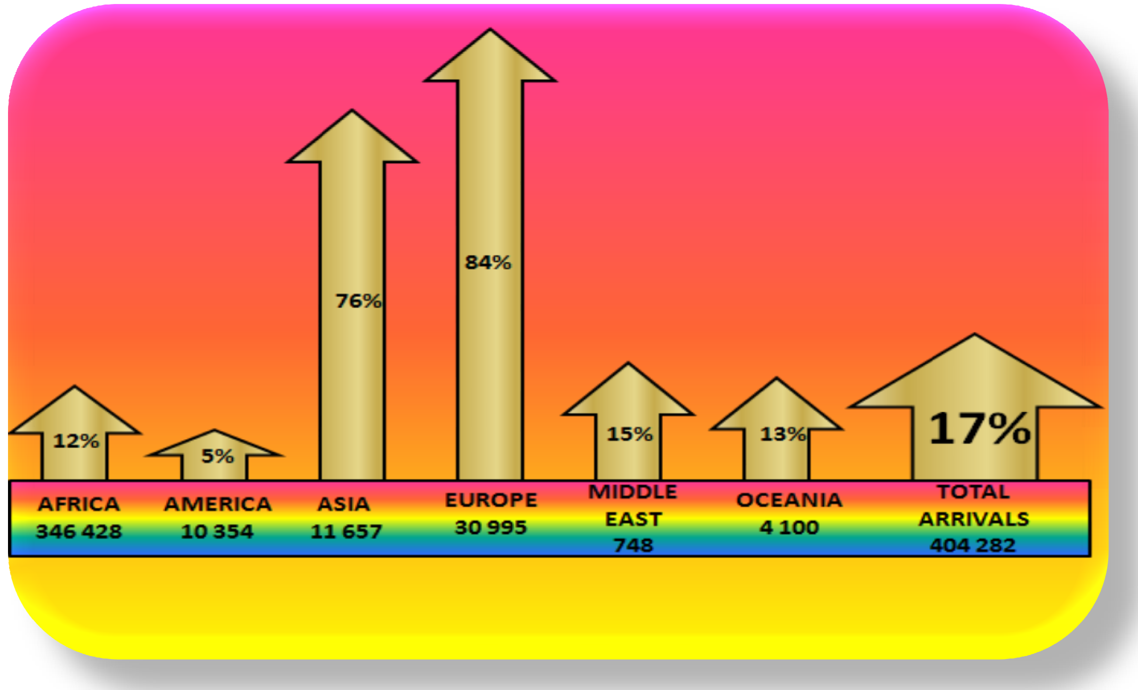
First Half Tourist Arrivals & Average Bed Occupancy Rate: 2009-2013



	2009	2010	2011	2012	2013 (Est.)
Arrivals	514 607	568 706	657 302	767,939	824,922
Average Bed occupancy (%)	24	31	30	32	33

99. During the first quarter, the market share for overseas arrivals stood at 14%, up 3 percentage points from 11% in 2012. Overall arrivals from overseas rose by 54% on the backdrop of exceptional increases from Europe and Asia, with the UK, France and China specifically registering outstanding performances.

100. Africa had a 12% increase in arrivals with South Africa, Mozambique and Zambia contributing close to 70% of all arrivals from the region.



101. Improvement in tourist arrivals and bed occupancy rate is also expected to hinge on expected investments as well as improved market accessibility following the introduction of new international flights and re-introduction of flights that had been suspended.

102. Furthermore, tourism expansion is expected to benefit from re-introduction in January 2013 of Statutory Instruments which suspend duty on capital goods and motor vehicles imported by tourism operators.

103. The co-hosting of the 20th Session of the UNWTO General Assembly in August 2013 is expected to bring in more than 3 000 foreign delegates will reinforce the growth in tourism.

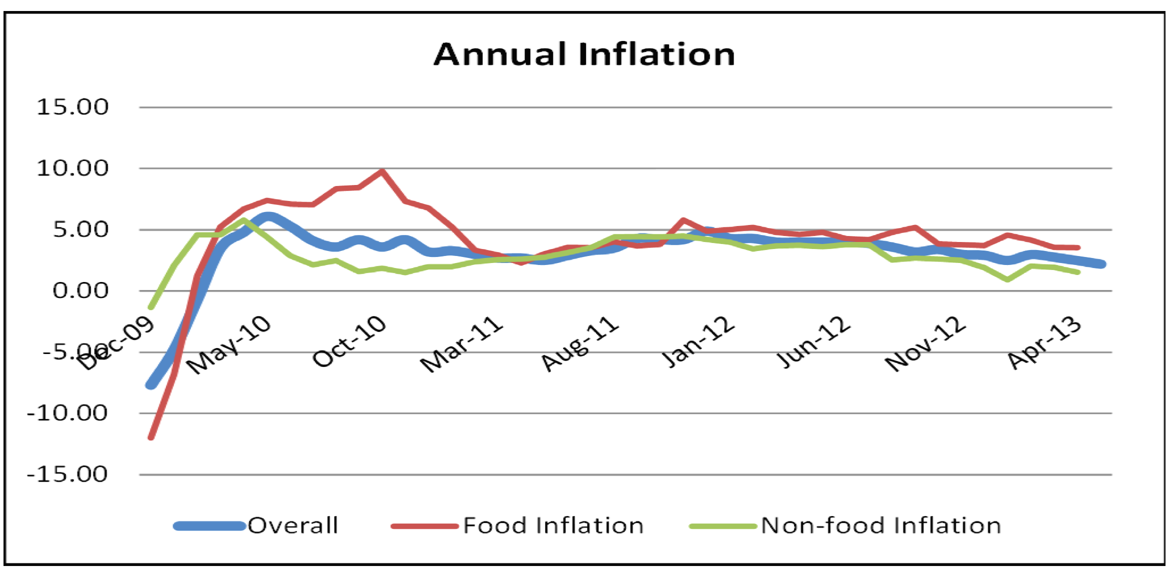
Prices

104. The waning inflation pressures, which started during the second half of 2012, spilled into the first half of the 2013, with annual inflation falling below levels of 3%. This current stable and low level of inflation, if combined with improvements in the other domestic macro-economic variables, can provide necessary impetus for long term growth.

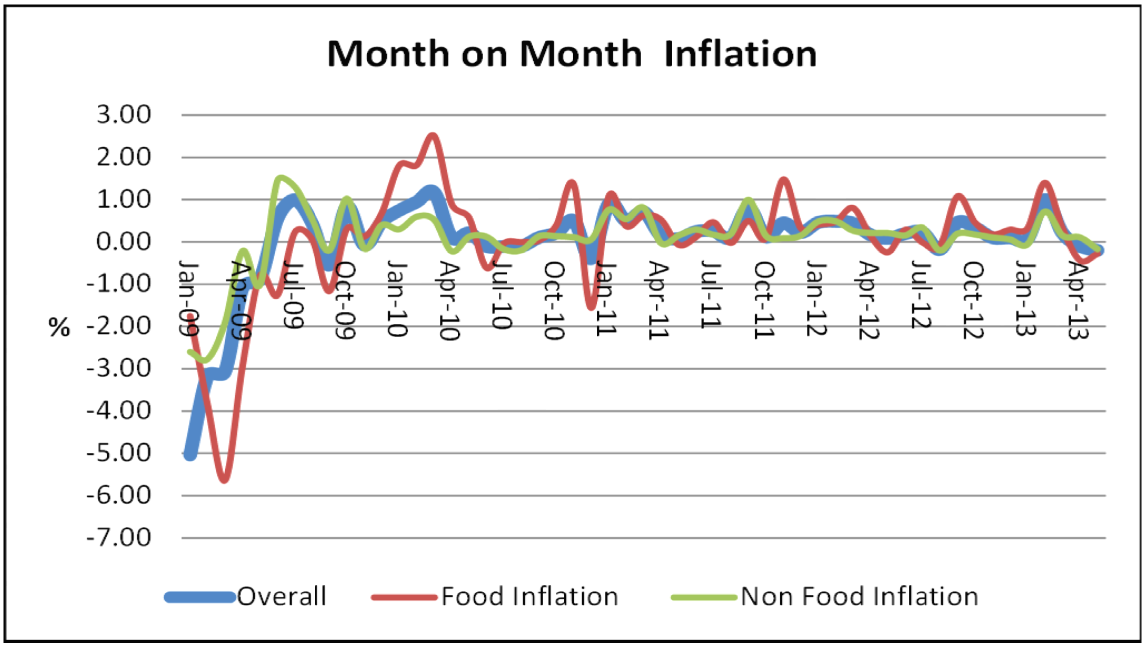
105. During the first half of 2013, annual inflation was 2.5% in January, rising to 3% in February before slowing down to 2.8%, 2.5% and 2.2% in March, April and May, respectively.

106. In June 2013, inflation stood 1.87%, shedding 0.3% on the May 2013 rate.

107. During the same period, food inflation also remained stable.



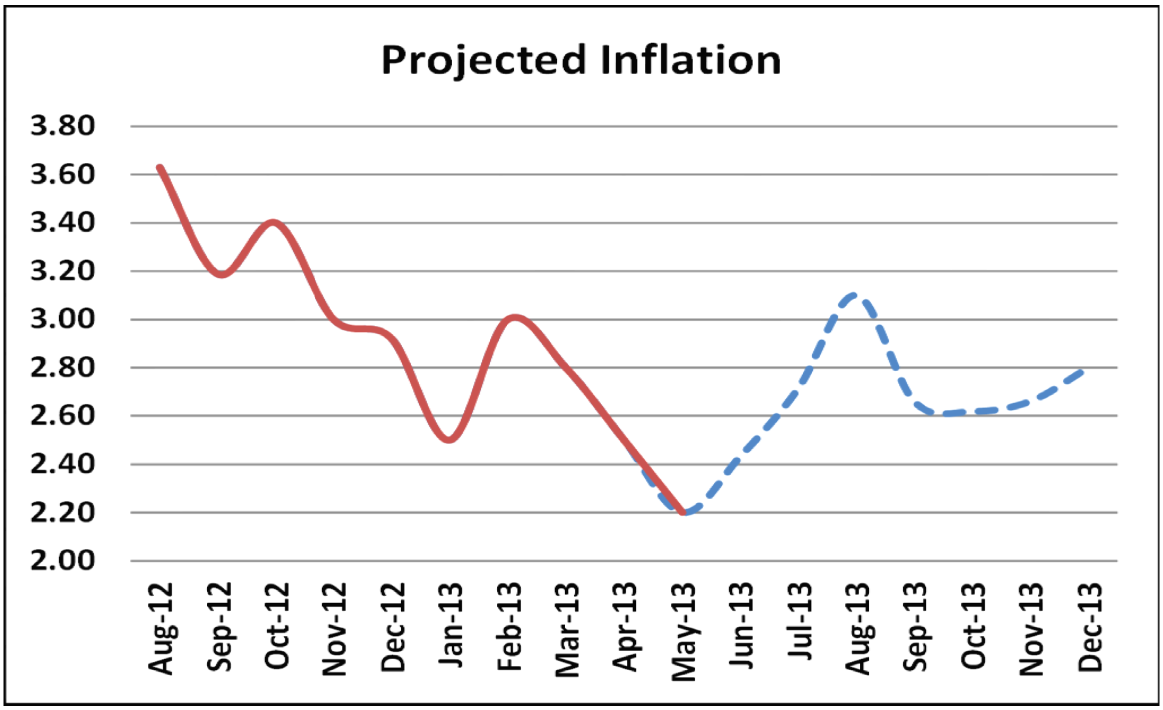
108. Month on month inflation was 0.1% in January, accelerating to 1% in February, before receding to 0.2%, -0.1%, -0.2% and -0.13 in March, April, May and June, respectively. During the same period, both monthly food and non-food inflation remains in line with overall month on month inflation.



109. The low inflation during the period under review was attributable to depressed aggregate demand due to liquidity challenges, depreciation of the rand and associated low inflation in the major trading partner, South Africa, stiff competition in the goods market as result of the liberalised pricing system and decreasing international oil prices.

110. In the outlook to year end, the price formation in the economy is expected to be influenced by exogenous factors such as movements in the rand/US dollar exchange rate, international oil and food prices, growth in money supply and related domestic factors such as wage demands, rentals and other administered prices.

111. Resultantly, annual average inflation for the year 2013 was revised from the original Budget projection of 4.5% to 3%.



112. With regards to price developments in the region, the country remains on course with regards to maintaining the SADC Macro-economic Convergence inflation target of below 5% as indicated in the Table below:

SADC Inflation Profile 2013

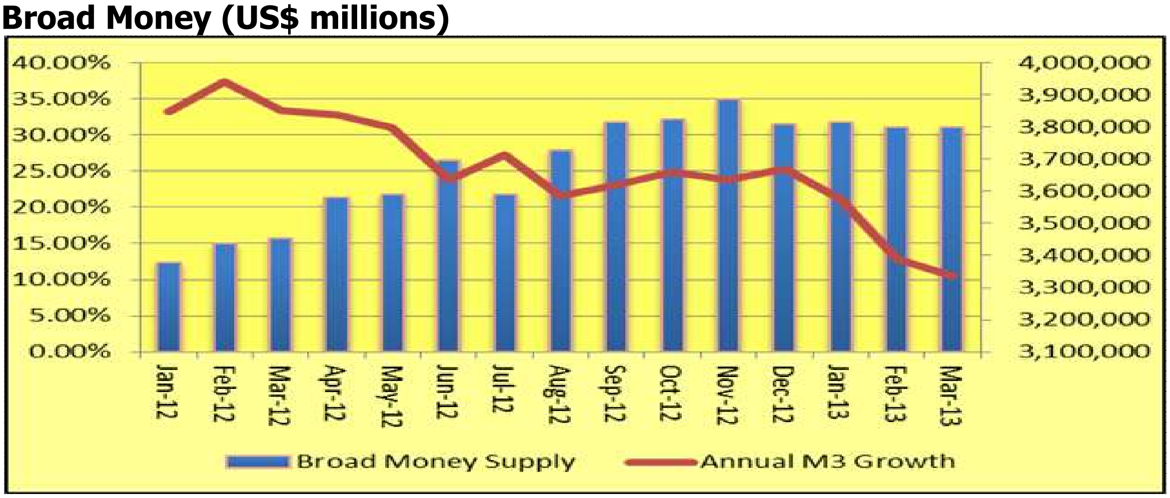
Country	January	February	March	April	May
Angola	8.9	9.04	9.11	9	9.5
Botswana	7.5	7.5	7.6	7.2	6.1
Lesotho	5.06	5.07	5	5.2	
Malawi	34.2	37.6	38.2	35.8	31.0
Mauritius	3.7	3.6	3.6	3.6	3.7
Mozambique	2.73	4.18	4.27	4.79	4.0
Namibia	6.68	6.21	6.29	6.11	6.1
Seychelles	5.9	6.2	6.5	5.3	3.7
South Africa	5.4	5.9	5.9	5.9	5.6
Tanzania	10.9	10.4	9.8	9.4	8.3
Zambia	7	6.9	6.6	6.5	7.0
Zimbabwe	2.5	3	2.8	2.5	2.4

Financial Sector

Money Supply

113. The annual broad money growth rate increased to 14.85% in April 2013, from 10.47% in March 2013. In absolute terms broad money went up from US$3.79 billion to US$3.97 in April 2013.

Broad Money (US$ millions)



Source: Reserve Bank of Zimbabwe

Banking Sector Deposits

114. The banking sector deposits grew from US$703 million in 2009 to US$4.43 billion as at 31 May 2013. Loans over the same period grew from US$263.5 million December 2009 to US$3.6 billion as at May 2013, as shown on the graph below:

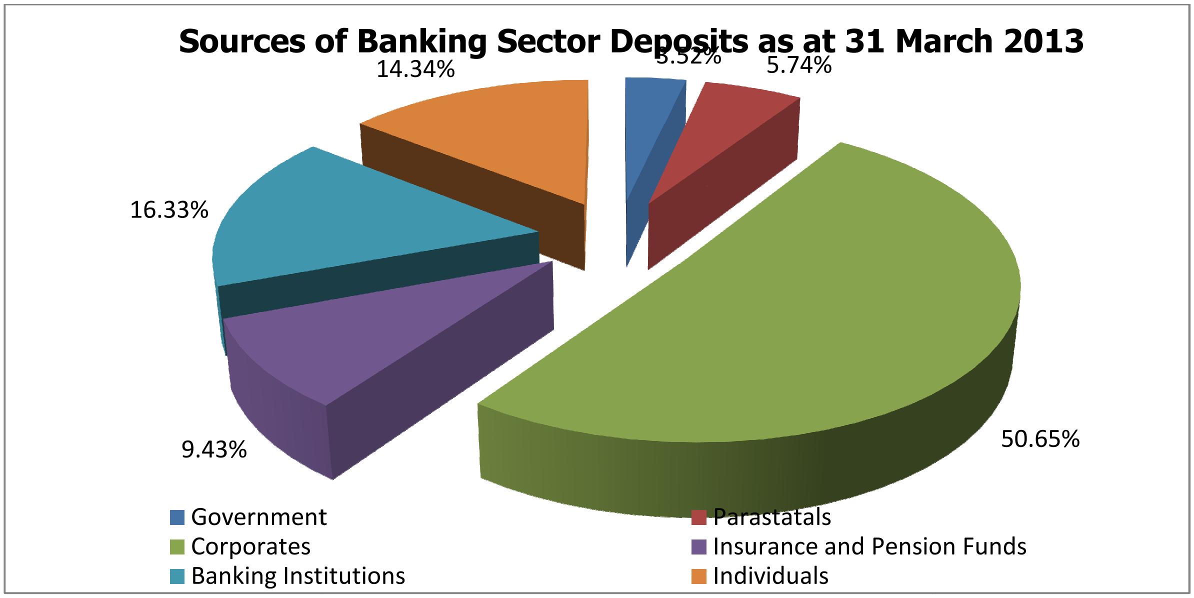
Trend of Banking Sector Deposits and Loans

Date	Total Deposits US$ m	Total Loans US$ m
June 2009	703	263.49
31 December 2009	1, 363.	674.75
31 December 2010	2, 567.61	1, 669.30
31 December 2011	3, 376.34	2, 761.39
31 March 2012	3, 584.57	2.839.83
29 June 2012	4, 025.67	3, 270.55
28 September 2012	4, 220.45	3, 321.10
31 December 2012	4, 410.92	3, 471.59
25 January 2013	4, 205.61	3, 401.67
22 February 2013	4, 266.61	3, 458.07
29 March 2013	4, 371.17	3, 529.88
26 April 2013	4, 396.72	3, 513.16
24 May 2013	4, 541.79	3, 587.06
31 May 2013	4, 426.17	3, 591.13

Source: Reserve Bank Zimbabwe

115. During the period under review, total banking sector deposits increased by 5.3% from US$4.2 billion in January 2013 to US$4.43 billion as at 31 May 2013. Of the US$4.43 billion deposits, 71% is held by the top eight banking institutions.

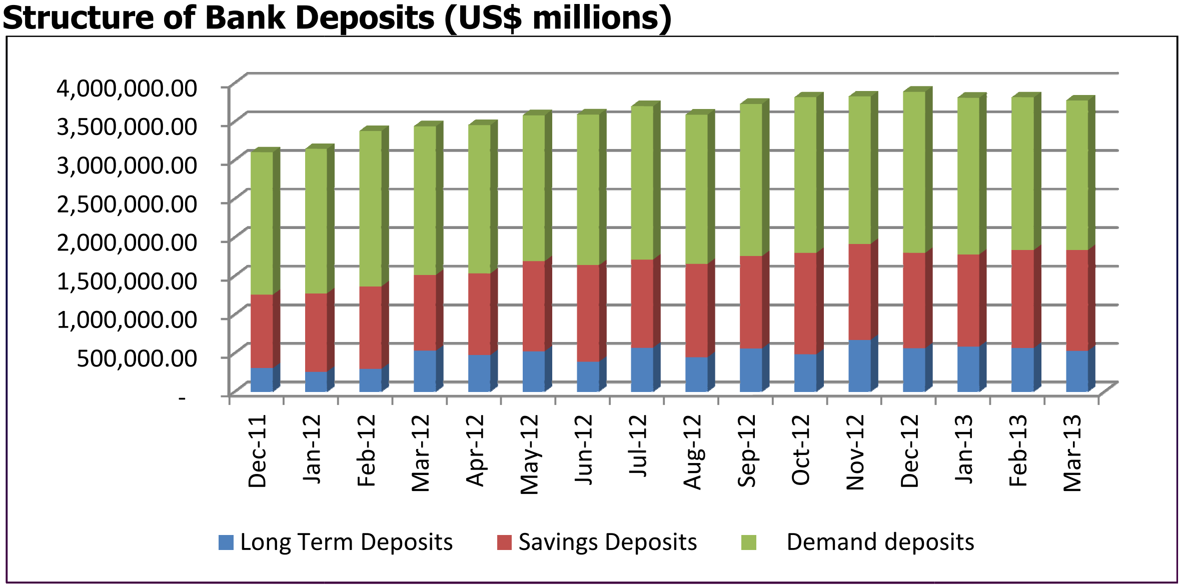
116. Since January 2013 the major sources of deposits have remained unchanged with corporates contributing 50.65%, followed by banking institutions and individuals with 16.33% and 14.34%, respectively, as at 31 March 2013 as indicated in the figure below.



Source: Reserve Bank of Zimbabwe

117. Demand deposits also decreased during the month of March, declining by US$14.8 million, to US$1 965 million. The prevailing liquidity constraints, as well as withdrawal of deposit maturities from the banking system underpinned this decline.

Structure of Bank Deposits (US$ millions)



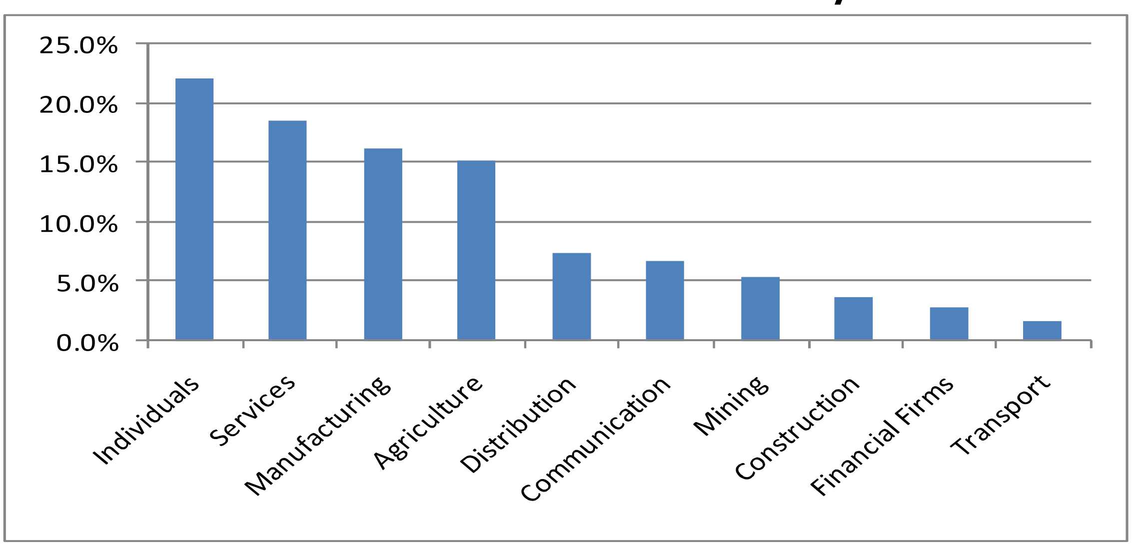
Source: Reserve Bank of Zimbabwe

Loans and Advances

118. Total banking sector loans and advances increased by 5.56% from US$3.401 billion in January 2013 to US$3.59 billion as at 31 May 2013. Of this amount, five (5) banking institutions accounted for 56.20% of total banking sector loans and advances.

119. Loans to individuals accounted for 22% of total banking sector loans as at 31 May 2013, as most banks are offering salary-based loans. This was followed by Services 18%, Manufacturing 16% and Agriculture 15% as shown in the graph below:

Sector Distribution of Loans & Advances as at 31 May 2013



120. The level of non-performing loans has been on an upward trend, from 1.8% as at December 2009 to 13.78% as at 31 March 2013. The deterioration in assets quality is largely attributable to poor loan

origination and underwriting standards, siphoning of banks' resources through non-performing insider and related party loans and poor risk management systems, as indicated in the Table below.

Adversely Classified Loans Total Loans from December 2009 to March 2013

	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Mar 2013
Ratio	1.80%	10.95%	7.55%	13.46%	13.78%

Source: Reserve Bank of Zimbabwe

Status of Banking Sector Capitalisation

121. As at 31 March 2013, 12 out of 21 operating banking institutions were in compliance with the 31 December 2012 prescribed minimum capital requirements of US$25 million. The Reserve Bank will continue to monitor implementation of banking institutions' recapitalisation initiatives.

Number of Institutions	% of Compliance as at 31 March 2013
12	100%
5	50%
4	Less than 50%

Securities Market

Trading Performance of the ZSE

122. Whilst trading at the Zimbabwe Stock Exchange was subdued in the first quarter of the year, developments in the months of May and

June 2013 have defied all fundamentals with phenomenal growth registered in the industrial index and in market capitalisation, among other factors.

123. This has resulted in the local bourse being ranked fourth in Africa by weekly turnover, after Nigeria, JSE and Nairobi Stock Exchanges and third (3rd) by Year to Date (YTD) return, after Ghana and Uganda as at 31 May 2013.

124. Notwithstanding this sterling performance, activity is below that of 2012 and is mainly confined to a few solid counters. Foreigners continue to dominate, with average market participation of 61% on the buy side. On the hand, local investors are mainly net sellers due to low disposable incomes and savings.

125. The statistics below show the bourse's performance in the first half of the year:

Indices

	31 Dec -12	Jan-13	Feb-13	March-13	April-13	May-13	June-13
Industrial	152.40	179.34	182.64	183.88	189.66	189.66	211.19
Mining	65.12	84.07	72.01	66.21	71.98	73.99	70.42

126. The industrial index registered a 38.6% growth, from 152.4 as at 01 January 2013 to 223.58 as at 28 June 2013, whilst the mining index increased by 11.2% from 65.12 to 70.42 over the same period.

Market Capitalisation US$ Millions

Date	Jan-13	Feb-13	March-13	April-13	May-13	June-13
Mkt Cap	US$4,700.33	US$4,748.24	US$4,726.34	US$4,894.68	US$5,471.22	US$5,336.860

127. Market capitalisation, which was US$3.96 billion during the beginning of the year, breached the US$5 billion mark in May and closed at US$5.3 billion on 28 June 2013. Whilst these statistics show positive growth, the exchange continues to have challenges which include; minimal corporate actions, absence of new listings and many struggling companies. Some of these listed companies are struggling due to lack of working capital and inability to meet continuing obligations of listed companies.

128. As a result of these challenges, about 20% of the listed companies on the ZSE remain inactive. Some of the inactive companies have applied for voluntary de-listings, whilst others have been forced to de-list as they cannot meet the minimum requirements for listed companies. This explains the increase in de-listings of a number of counters by the ZSE as communicated through the media. The exercise should result in more active counters of quality on the exchange.

Development of the Securities Market

129. In an environment where markets have become extremely competitive due to financial globalism, Zimbabwe needs to move with

the times in order to attract a significant amount of possible foreign portfolio investments.

130. In view of this, effort is being directed at ensuring that there is price discovery in the market, good corporate governance, enabling infrastructure and strengthened regulatory and supervisory framework.

131. Progress to date on some of the measures being undertaken to strengthen our securities market is as follows:

Central Securities Depository (CSD)

132. In line with the Vision of modernising our capital markets infrastructure, I am happy to report that notable progress has been registered in the establishment of the Central Securities Depository. The CSD implementing company, Chengetedzai Depository Company, has set up a Data Centre and installed hardware. The system is expected to go live in September 2013, albeit having missed the first quarter target date alluded to in the 2013 National Budget Statement.

133. Government gazetted the CSD Regulations through Statutory Instrument (SI) 63 of 2013 in May 2013 to pave way for the operationalisation of the Central Securities Depository. The

Regulations set out a framework for the registration, supervision and regulation of the CSD, as well as, licensing requirements for Depository Participants.

134. The gazetting of the Regulations heralds the need for all market players to prepare in terms of capacity building in preparation for implementation of this project. To this end, I call upon the CSD Company to ensure that the set timelines are met without fail since all the conditions precedents for the operationalisation of the CSD are now in place.

Automation of trades at the ZSE

135. As in previous Budget Statements, I wish to express concern that the Zimbabwe Stock Exchange continues to use the public cry system on its trading floor, a system that was abandoned by other exchanges a long time ago. With no progress having been realised on this front, I am, therefore, calling on the ZSE to put its house in order and ensure that this issue is addressed as a matter of urgency.

136. Given that the CSD is set to go live in September 2013, it is critical that automation of trades follows thereafter. The benefits accruing from an automated system cannot be over emphasised, particularly in this era of ever evolving technology.

Demutualisation

137. I am glad to report that there is now stakeholder consensus on the need to demutualise the Exchange. Following the approval of the Securities Amendment Bill into Law, it is now a Statutory Requirement for all securities exchanges to be corporate bodies. The Exchange is expected to be demutualised by end of the first quarter of 2014.

138. In demutualising the exchange, Zimbabwe is taking the route that has been taken by many jurisdictions, which include South Africa and India, among others. We will, therefore, be drawing from the experiences of these countries as we demutualise the local bourse.

SME Bourse

139. In my previous Budget Statements, I have mentioned the need for alternative exchanges, particularly for Small and Medium Enterprises.

140. To date, the ZSE has drafted the listings criteria for the SME bourse. Currently consultations are being held with investors and potential users of the exchange. One of the conditions that will be critical for the operation of the SME Bourse is the Automated Trading System. It is, therefore, critical that the ZSE moves with speed on the ATS project.

Investor Protection Fund

141. The Fund was valued at US$5.7 million as at 31 March 2013, thus reflecting a steady growth of the Investor Protection Fund. However, the Fund could be threatened by possible claims subject to on-going licenced company closures. In this regard, I call upon the regulator to ensure that the investing public is protected from the adverse impact of such company failures.

Insurance and Pensions Industry

142. The insurance and pensions industry recorded a steady growth during the first half of 2013. Industry assets grew by 2.23% during the first quarter of 2013. The growth is mainly attributed to the stable macro-economic environment that has prevailed since the multicurrency system.

143. The Table below shows assets by class of business as at 31 March 2013.

Comparisons of Total Assets as at 31 December 2012 and 31 March 2013

Class of Business	Total Assets as at 31 Dec 2012 (US$000)	Total Assets as 31 Mar 2013 (US$000)
Short Term Insurers	135, 870	173,793
Short Term Reinsurers	102, 646	111,061
Life Assurers	1,177, 000	1,085,000
Life Re-assurers	1,183	1,273
Funeral Assurers	58,729	58,580
Pension Funds	1,512,000	1,626,000
Total	2,987,428	3,055,707

Source: Insurance and Pension Commission

Status of Compliance to Minimum Capital Requirement

144. As stakeholders will recall, the minimum capital requirements for insurance players were increased through the 2013 National Budget Statement. In terms of the compliance roadmap, insurance companies are supposed to be 50% compliant by 30 June 2013. Statistics from the Insurance and Pensions Commission (IPEC) indicate that most insurance companies are likely to meet the June deadline. The Table below shows the status of compliance.

Compliance to Minimum Capital Requirements as at 31 March 2013

Class of Business	Minimum Capital Requirements	% of Compliance
Short Term Insurers	US$1,500,000	78%
Short Term Reinsurers	US$1,500,000	89%
Life Offices	US$2,000,000	89%
Life Re-assurers	US$1,500,000	100%
Funeral Assurers	US$1,500,000	82%
Insurance Broker	US$100,000 in prescribed securities plus US$200,000 Professional Indemnity cover	87%
Reinsurance Broker	US$100,000 in prescribed securities plus US$250,000 Professional Indemnity cover	75%

Source: Insurance and Pensions Commission (IPEC)

Challenges facing the Sector

145. While the industry is key in driving economic activity it is, however, facing challenges such as negative public perception following values

lost during the hyper-inflationary period, poor corporate governance in some institutions, liquidity constraints, and out-dated legislation.

Conversion of Pension Benefits at Inception of Multiple-Currencies

146. As stakeholders may recall, an independent actuary was engaged to evaluate the transparency in the conversion process. I am pleased to announce that the report is now with Treasury and the appropriate policy pronouncements will be made in due course.

Parastatals and Local Authorities Contribution Arrears

147. As Government, we are concerned by the pension contribution arrears being accrued by parastatals and local authorities. The arrears are mainly arising from the following factors:

- contribution rates of as high as 30%;
- adoption of very high and unsustainable benefits structures;
- absence of a policy framework which defines benefits and contributions structure for parastatals and local authorities pension schemes;
- poor corporate governance and accountability on these contributory institutions, which have seen some of the executives awarding themselves hefty salaries and allowances,

making book entries whilst failing to remit pension contributions to their pension funds.

148. Accumulating arrears is detrimental to Pension Fund Members, Fund Administrators, the Government and the Pension Industry at large.

149. To address this challenge, the Insurance and Pensions Commission (IPEC) will, through stakeholder consultation, come up with a policy framework which defines benefits, contribution structures and governance of pension funds in local authorities and parastatals.

Legislative Reforms

150. In order to further stabilise and develop the financial sector in line with international best practices, the following bills were approved by Parliament into Law:

Micro-Finance Bill

151. Stakeholders will recall that I announced the importance of enacting micro-finance legislation for the purposes of promoting pro-poor economic growth.

152. In this regard, I would like to express my appreciation to both Houses of Parliament for passing the Micro-finance Bill, which now awaits Presidential Assent.

153. The approved Bill will provide for the regulation of deposit taking micro-finance institutions, non-deposit taking MFIs and also includes a code of conduct which enforces good ethical standards within the micro-finance sector.

154. The introduction of deposit taking micro-finance institutions will also enhance the mobilisation of small and irregular savings from the informal sector, thereby promoting financial inclusion. The enforcement of the code is expected to enhance consumer protection and bring a measure of sanity to the sector.

Securities Amendment Bill

155. I am pleased to announce the approval of the Securities Amendment Bill by both Houses of Parliament. The Bill is now waiting Presidential assent.

156. The main objective is to align the supervisory framework with the International Organisation of Securities Commissions (IOSCO) principles of securities regulation.

157. The following major changes have been brought into force through the approved amendments:

- Mandatory demutualisation of securities exchanges
- Transfer of the regulation of asset managers and collective investment schemes from the Reserve Bank of Zimbabwe to the Securities Commission.
- Enhanced supervisory powers to the Commission.
- Board members of the Securities Commission will increase from the current five executive Commissioners to a maximum of nine non-executive Commissioners.

158. Given that Parliament has approved the Securities Amendment Bill, there is now need for market players, particularly the ZSE, to align their Members Rules to conform to the provisions of the amended Securities Act and Regulations.

Money Laundering and Proceeds of Crime Bill

159. Zimbabwe is a member of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG). By virtue of its membership to ESAAMLG and ultimately to the Financial Action Task Force (FATF), Zimbabwe is obliged to implement the FATF standards on Anti-Money Laundering and Combating of Financing of Terrorism (AML/CFT).

160. In line with this regional commitment, a Money Laundering and Proceeds of Crime Act was promulgated to align the country's AML/CFT legal and institutional framework with the (FATF) Recommendations.

161. In particular, the Act amends the Bank Use Promotion and Suppression of Money Laundering Act [Chapter 24:24], the Criminal Matters (Mutual Assistance) Act [Chapter 9:06], the Building Societies Act [Chapter 24:02] and the Asset Management Act [Chapter 24:26], as well as repeals the Serious Offences (Confiscation of Profits) Act [Chapter 9:17].

Other Financial Sector Bills

162. In line with on-going reforms in the financial sector, the following Bills are expected to be presented to the new Parliament before year end:

Banking Act Amendment Bill

163. Treasury intends to amend the Banking Act in order to improve corporate governance within the banking sector and to enhance consumer protection. The bill will be updated to incorporate developments in the banking sector and also align the banking legislation with international and regional standards.

164. The proposed amendments will strengthen the Banking Act by providing minimum standards required for effective regulation of the banking sector.

165. I am pleased to advise that the Banking Act Amendment Bill has been approved by Cabinet for submission to Parliament for consideration.

166. The innovation of mobile and e-banking due to advances in technology has introduced forms of banking which were previously not regulated. As an example, US$611 million was transacted through mobile and e banking in April 2013. Given market imperfections, it has become imperative to develop a strengthened and effective legal framework to regulate these new forms of banking.

167. In this regard, the amendments to the Banking Act, currently before Parliament, will provide for the regulation of these new forms of banking. Furthermore the RBZ will be empowered to come up with a supervisory framework for transactions being conducted on such platforms.

Insurance Act Amendment Bill

168. Given that out-dated legislation is one of the challenges facing the insurance sector, focus is now on reviewing the legal framework to

address the current deficiencies. In this regard, amendments will be made to the Insurance Act [Chapter 24:07]. The Act will be reviewed in line with the standards set out by the International Association of Insurance Supervisors (IAIS).

169. The amendments will focus on 3 pillars, which are, corporate governance, legal and regulatory framework and prudential standards. Specific amendments will include the following, among others:

- Empowering the Insurance & Pensions Commission to effectively supervise the sector;
- Addressing corporate governance issues;
- Regulation of micro-insurance;
- Anti-money laundering and countering the financing of terrorism;
- Group wide supervision of financial conglomerates; and
- Regulation of medical insurance schemes by the Insurance and Pension Commission.

Pension and Provident Funds Amendment Bill

170. In line with envisaged amendments to the Insurance Act, the Pension & Provident Funds Act [Chapter 24:09] will be amended in line with the standards set by the International Organisation of Pension Supervisors (IOPS). Specific amendments to the Act will include the

protection of policy holders, rights of policy holders, establishment of a policy holder protection fund, pension funds investment abroad, among others.

171. Through these proposed amendments, Government strives to create a robust and internationally respected industry that is a vehicle for risk transfer for the commercial, industrial and personal insurance covers, playing its national role of security to the public and financial support to the fiscus.

Insurance & Pensions Commission Amendment Bill

172. The principal objective of the proposed amendments to the Insurance and Pensions Commission (IPEC) Act [Chapter 24:09] is to reconcile regulatory functions with the Insurance Act and the Pension & Provident Funds Act. Regulatory powers that were bestowed upon the Commissioner will be transferred to the Commission.

173. In addition, IPEC's supervisory powers will be enhanced through incorporating provisions relating to the following:

- Establishment of a Corporate Governance Framework for the insurance and pension industry;
- Power to do a fit and proper test of shareholders and key functionaries in regulated entities;
- Power to impose shareholding limits to insurance companies;

- Powers to appoint a curator to ailing entities; and
- Accreditation of actuaries, among others.

External Sector

Exports

174. For the period January to May 2013, exports stood at US$1.301 billion compared to US$1.328 billion realised in the previous year. This represents a 2% decline in exports, which also reflects the overall slowdown in the real economy. Minerals and tobacco have been major items contributing the bulk of the exports earning.

175. By the end of 2013, exports are projected to reach US$4.5 billion compared to US$3.8 billion realised in 2012. However, significant recovery of exports will be constrained by limited foreign direct investment (FDI) inflows, structural rigidities in the economy as well as declining international commodity prices for nickel, platinum and diamonds, among others.

Exports: 2013

Month	2012	2013
January	258,124,310	280,512,519
February	255,206,355	279,057,033
March	309,946,785	253,999,596
April	227,035,793	209,918,959
May	278,145,876	278,413,609
Total	**1,328,459,119**	**1,301,901,716**

Source: ZIMSTAT

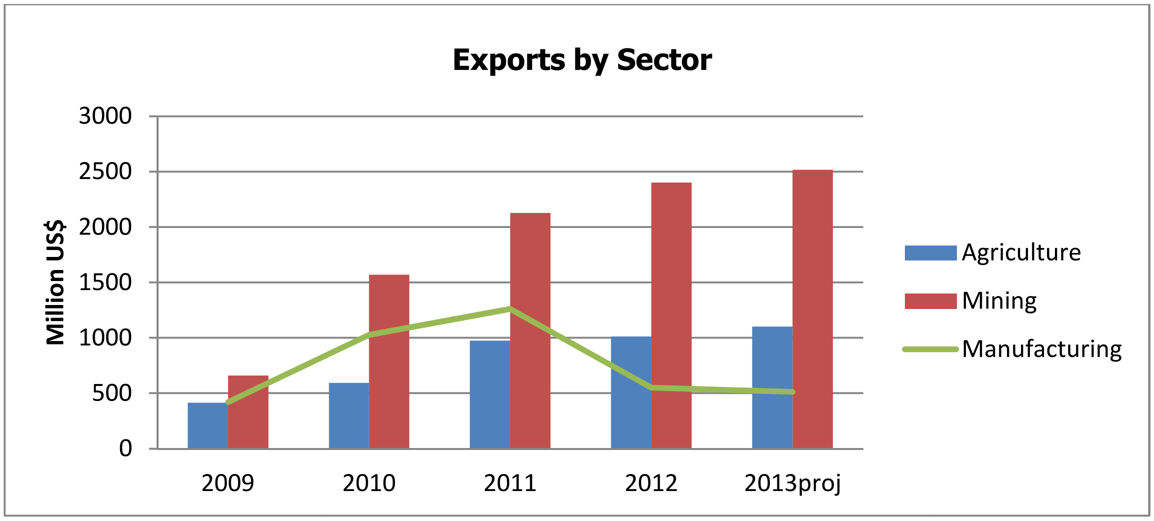
176. About 83% of the exports are raw materials, pointing at the need to broaden the export base to also include semi-processed commodities. Over-reliance on primary commodities, of which the prices are influenced by international developments, is unsustainable in the medium to long term. Thus, beneficiation of the primary commodities will also go a long way to increase the value of exports.

177. The manufacturing sector growth has remained sluggish over the period as a result of such factors as liquidity constraints, high cost of borrowing, power outages, old technology and equipment. Furthermore, a depreciating Rand has also contributed in reducing the country's manufactured exports competitiveness.

178. In this regard, policy measures and strategies that boost production and competitiveness of locally-produced products remain critical pillars in dealing with the trade deficit.

179. Government should promote and implement export growth strategies that enhance competitiveness in the manufacturing and agriculture sectors, thereby widening of the export base.

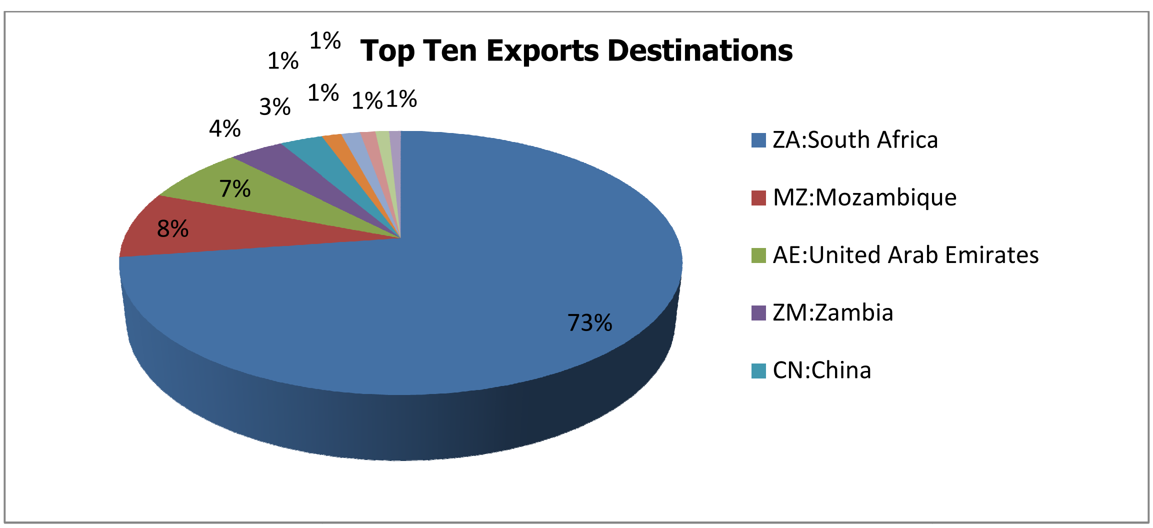
180. Since 2009, exports have been largely driven by minerals as indicated in the Chart below.



Source: RBZ (BOP)

Top Ten Export Destinations

181. In 2013, South Africa (73%) has remained the major destination of the country's exports, followed by Mozambique (8%) and United Arab Emirates (7%). While the rest of the world accounts for 1%. Exports to South Africa include: unrefined gold and platinum that will be refined in that country before being exported to Europe and Asia.



Source: ZIMSTAT

Imports

182. Imports amounted to US$3.205 billion for the period January to May 2013 compared to US$2.601 billion recorded in the corresponding previous year. This represents a 23% increase in imports. Consequently, imports are projected to reach US$7.6 billion by the end of the year compared to US$7.4 billion realised in 2012. The demand for imports is inelastic due to capacity constraints in the economy.

183. Lack of competitiveness in the economy due to the use of antiquated machinery and old technology has constrained domestic growth. As a result, imports of consumer goods remain unsustainably high. In the month of April, imports increased to US$963 million, up from US$532 million in March, as a result of huge fertilizer imports.

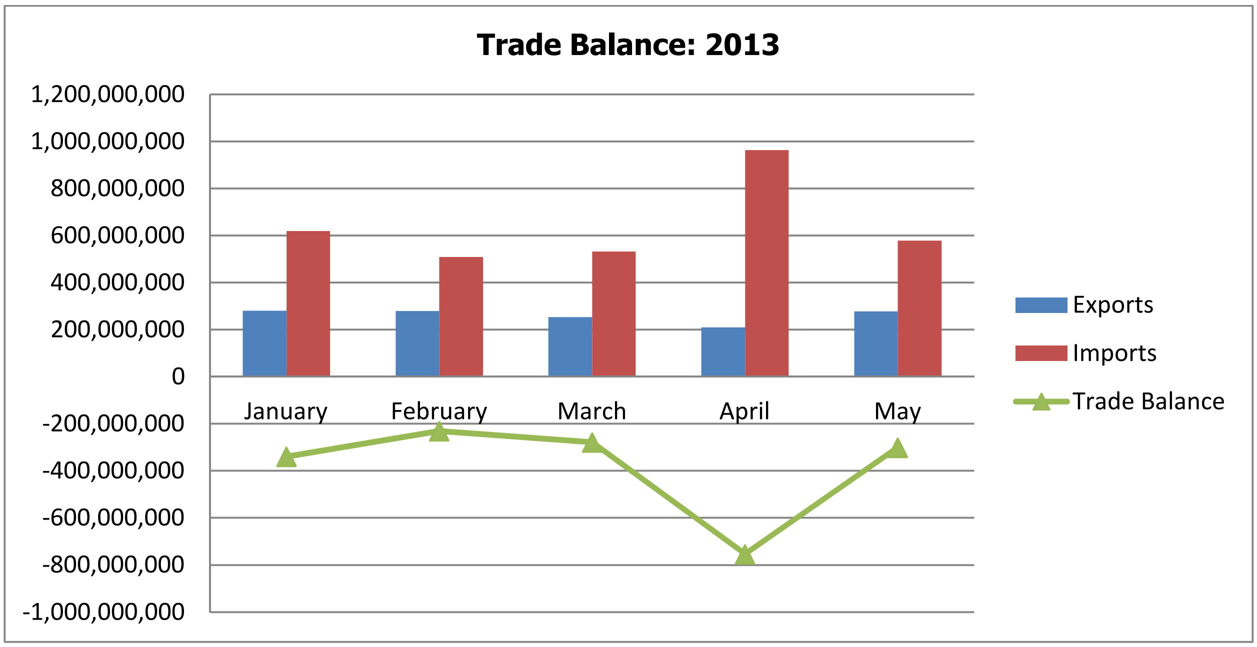
184. The other major items dominating imports are; consumables, manufactured goods, equipment and machinery and motor vehicles.

Imports: 2013

Month	2012	2013
January	604,942,503	619,516,948
February	470,517,060	509,898,301
March	512,150,918	532,749,545
April	490,167,867	963,495,658
May	523,853,496	579,176,764
Total	**2,601,631,844**	**3,205,058,471**

Source: ZIMSTAT

185. By the end of 2013, the current account deficit is expected to marginally improve as a result of a slight improvement in exports performance. The current account deficit to GDP ratio is projected to slightly improve from 21% in 2012 to 18% by the end of 2013.

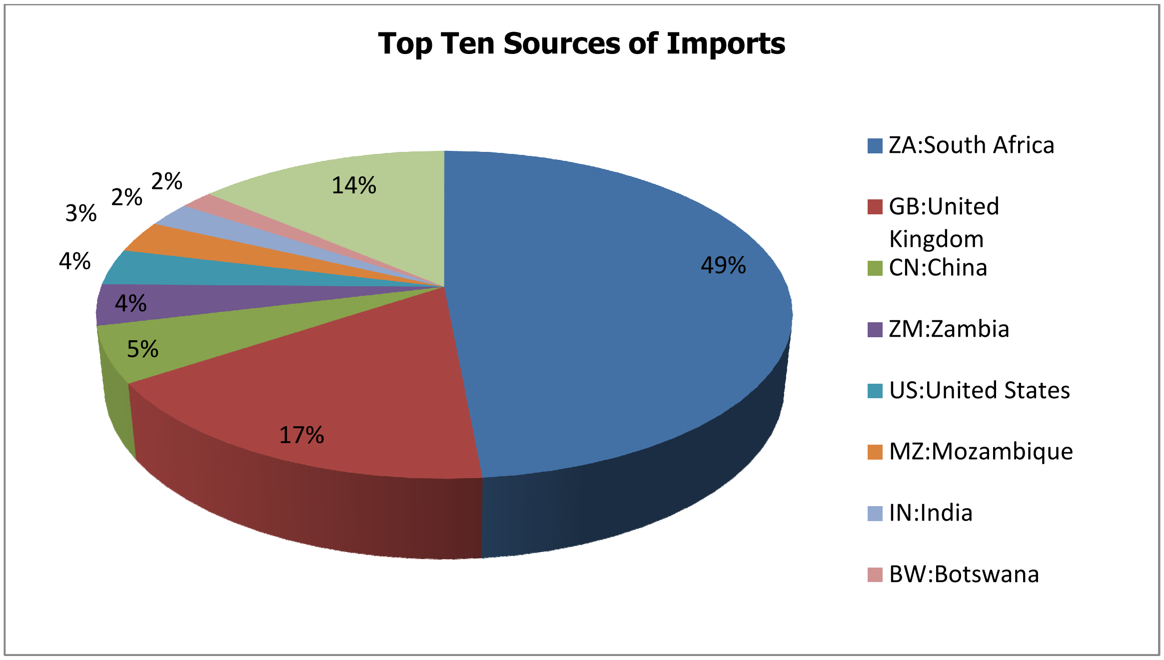


Source: ZIMSTAT

Top Ten Sources of Imports

186. In terms of imports, South Africa remains the major source, accounting for 49%, followed by Great Britain (17%) and China (5%). The rest of the world accounts for 14%.

187. Most of imports from South Africa include; food, raw materials, motor vehicles, machinery and equipment.



Source: ZIMSTAT

External Sector Developments: 2009-2013

188. Since 2009, the country's external position has remained precarious, typified by persistent current account deficits which cannot be offset by capital account inflows. These unsustainable current account deficits are also a reflection of the country's over-reliance on foreign savings to finance domestic investment.

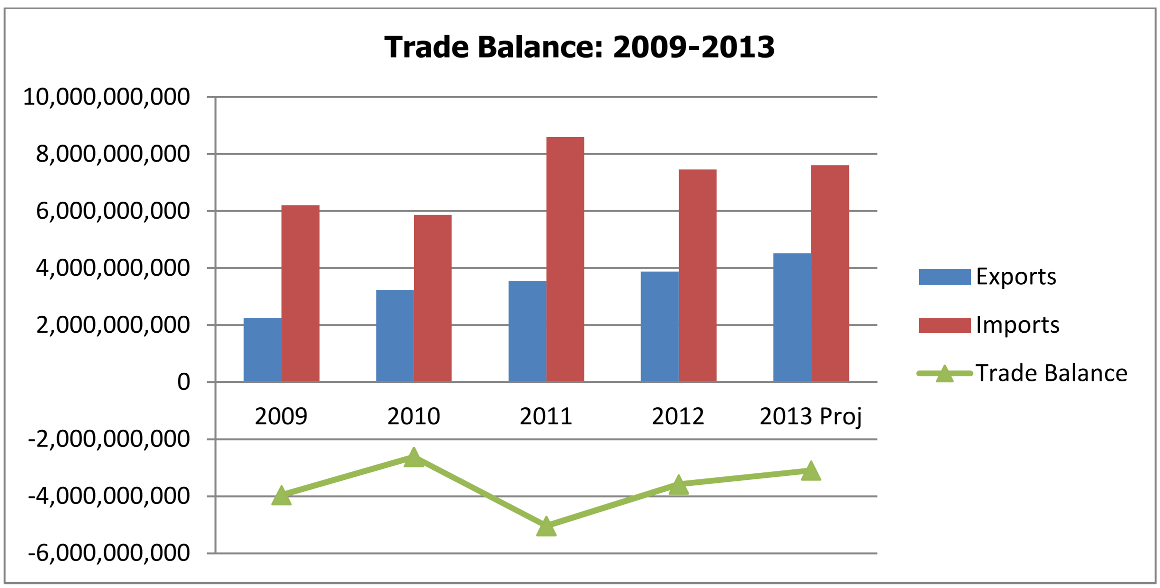
189. These adverse external sector developments have culminated in the incurrence of substantial balance of payments deficits, a development that does not bode well for the accumulation of foreign exchange reserve buffers.

190. Due to the depleted foreign currency reserves, the import cover has remained on average below one month since 2009, which falls far below the SADC threshold of 3 months.

Imports and Exports: 2009-2013

Year	Exports	Imports	Trade Balance
2009	2,249,744,640	6,207,349,167	-3,957,604,528
2010	3,245,441,506	5,864,662,094	-2,619,220,589
2011	3,557,383,683	8,596,428,233	-5,039,044,550
2012	3,882,429,092	7,463,542,255	-3,581,113,163
2013 Proj	4,522,021,177	7,614,616,603	-3,092,595,426

Source: ZIMSTAT



Source: ZIMSTAT

Capital Account

191. Since 2009, the country has failed to attract significant capital inflows as result of the perceived country risk, which lowers investor confidence. Reflecting this, foreign direct investment, portfolio investment and grants inflows have been volatile over the past years.

This situation calls for a shared vision on how to improve the country's investment climate by benchmarking investment regulations to best practices.

192. In terms of regional developments, the country is one of the least recipients of foreign direct investment. However, the huge errors and omissions relative to the size of the economy is a cause of concern as they undermine the credibility of the balance of payments statistics.

Capital Account Developments: 2009-2013 (US$ m)

	2009	2010	2011	2012	2013
Grants	391	231	210	230	218
Direct Investment (Net)	105	123	373	354	334
Portfolio Investment (Net)	67	63.09	10	99	100
Long Term Capital (net) - Loans	-128	5	723	31	275

Source: RBZ (BOP)

Doing Business 2013 Rankings

193. Doing Business measures the ease of starting a business in an economy by recording all procedures officially required or commonly done in practice by an entrepreneur to start up and formally operate an industrial or commercial business – as well as the time and cost required to complete these procedures.

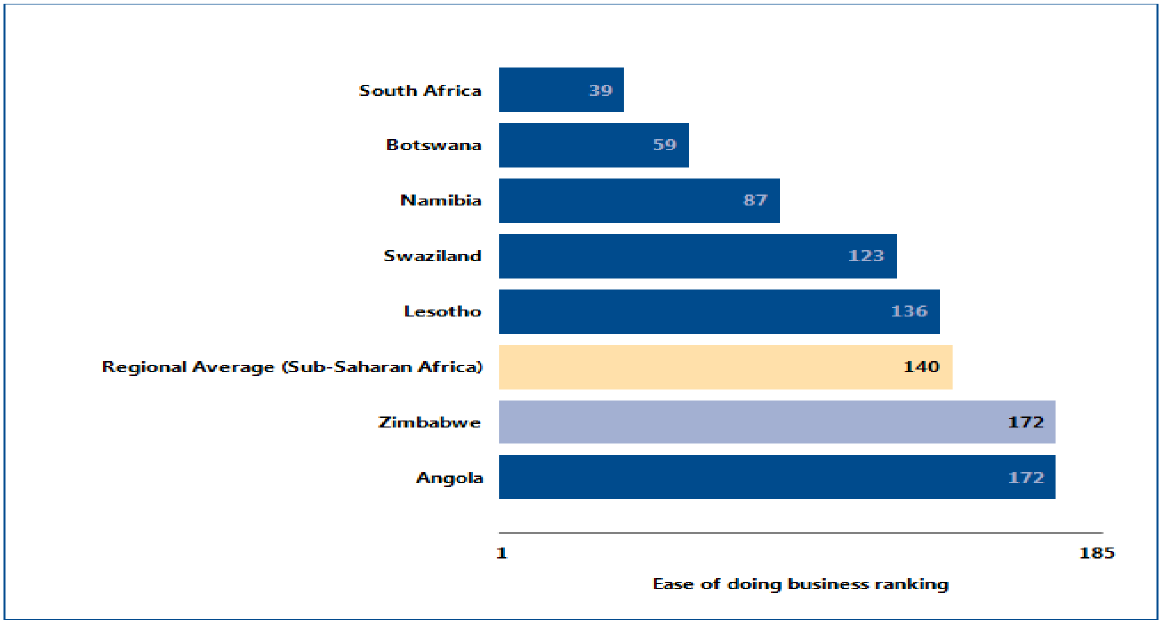
194. It measures and tracks changes in regulations affecting 11 areas in the life cycle of a business, that is:

- starting a business;
- dealing with construction permits;
- getting electricity;
- registering property;
- getting credit;
- protecting investors;
- paying taxes;
- trading across borders;
- enforcing contracts;
- resolving insolvency; and
- employing workers.

195. In 2013, Zimbabwe slipped from 170 to 172 out of 185 economies in terms of the ease of doing business. This indicates that the investment climate in the country is relatively not improving fast enough, thereby adversely affecting foreign capital inflows.

Topic Rankings	**DB 2013 Rank**	**DB 2012 Rank**	**Change in Rank**
Starting a Business	143	145	2
Dealing with Construction Permits	170	169	-1
Getting Electricity	157	165	8
Registering Property	85	84	-1
Getting Credit	129	127	-2
Protecting Investors	128	124	-4
Paying Taxes	134	127	-7
Trading Across Borders	167	172	5
Enforcing Contracts	111	112	1
Resolving Insolvency	169	155	-14

196. In the SADC region, the country is also ranked below the Sub-Sahara Africa regional average of 140.



III. PUBLIC FINANCES

Revenue Performance

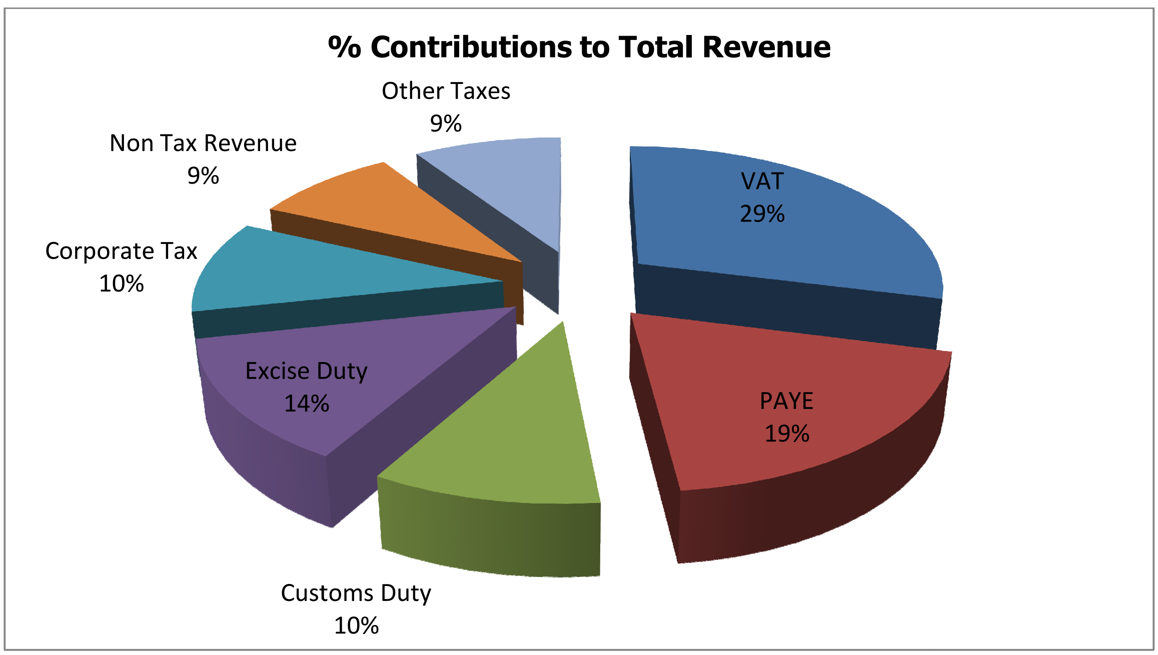
197. Revenue collections during the period January to June 2013 amounted to US$1.807 billion against a target of $1.761 billion, resulting in a positive variance of 0.8%. Tax revenue accounted for 91% of the total revenue, whilst non tax revenue accounted for the remaining 9%.

198. The Table below shows revenue performance during the period under review.

Revenue Performance: January to May 2013

	Actual (billions)	Target (billions)	Variance (%)
Total Revenue	1.81	1.76	3
Taxes	1.65	1.67	-1
Non Tax	0.16	0.09	70
o/w –Diamond	-	0.03	-100
-POTRAZ Licence	0.12	0	-

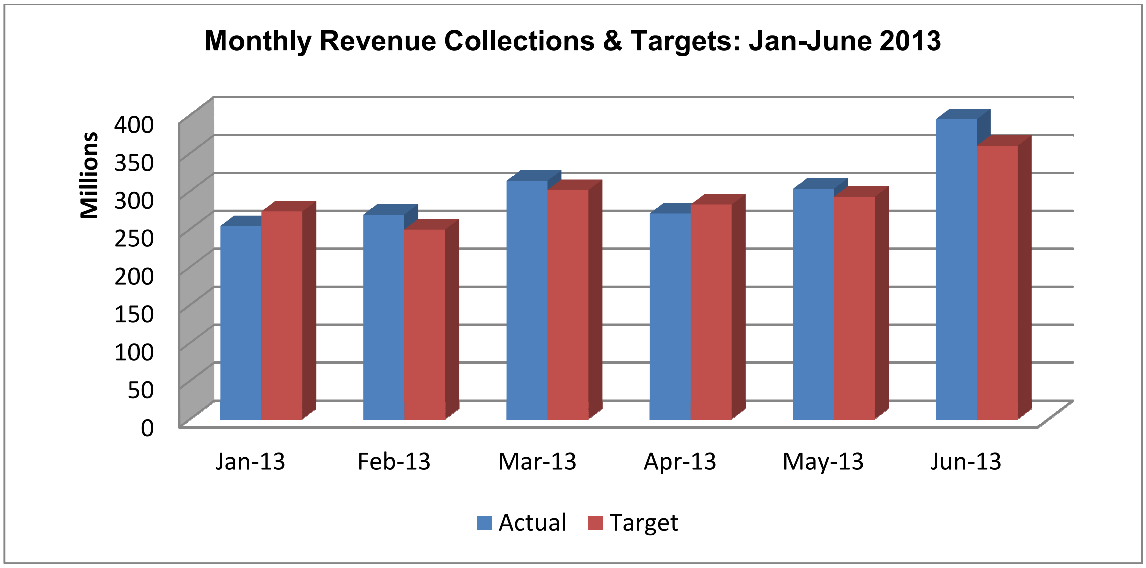
199. The positive performance is attributable to significant contributions from Value Added Tax, Pay As You Earn, Excise Duty, Corporate tax and Customs Duty as indicated below.



200. Policy adjustment with respect to excise duty on fuel has begun to yield positive results, contributing an additional US$5 million per month. Renewal of licence by one mobile service provider has also contributed significantly to non-tax revenue.

201. No remittances were made from diamond dividends as anticipated.

202. Despite the overall positive performance, monthly revenue collections, however, fluctuated above and below the target throughout the period under review as illustrated below.



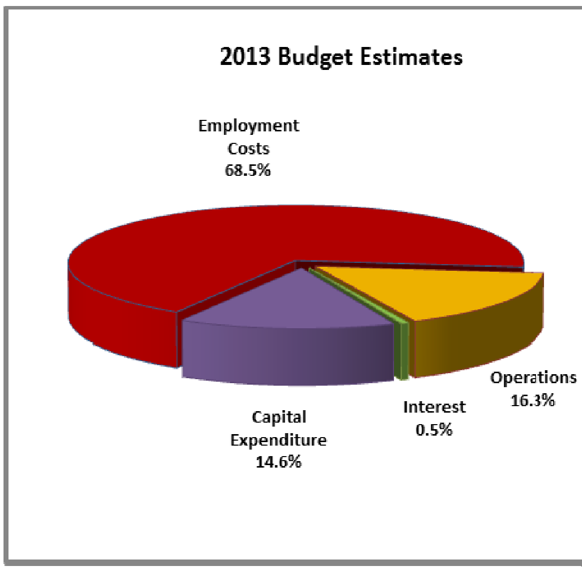
RECURRENT EXPENDITURES

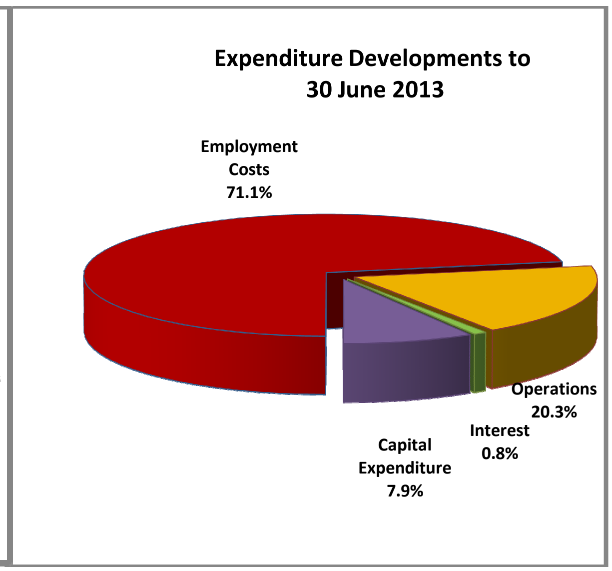
Total Expenditures & Net Lending

203. Total expenditures and net lending for the first half of 2013 amounted to US$1.828 billion. This is against planned expenditures of US$1.762 billion.

204. Whilst overall expenditures exceeded target by around US$66 million, support to capital expenditures underperformed by around US$40 million.

205. It is worthy to note that total support of US$104.4 million as at 18 July 2013 towards the Constitutional Referendum (US$45.9 million) and preparations for the Harmonised Elections (US$58.5 million), had the unfortunate consequence of crowding out implementation of other budgeted programmes and projects.





Summary of Expenditures: Jan – June 2013

	Original Estimate	Expenditures							Budget Utilisation
		Jan	Feb	Mar	Apr	May	June	Total	
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	(%)
Employment Costs	2 645	188.1	238.8	223.2	202.7	223.6	222.4	1 298.9	49.0
Operations	630	35.2	55.6	82.9	29.8	75.5	91.5	370.5	58.8
Interest	20	0.5	0.3	10.7	0.2	0.8	1.8	14.3	71.5
Capital Expenditure	565	8.1	35.3	12.3	8.3	60.9	18.9	143.8	25.5
Total	3 860	232	330	329.2	241	360.8	334.6	1 827.5	47.3

Employment Cost Developments: Jan – June 2013

	Original Estimate	Expenditures							Budget Utilisation
		Jan	Feb	Mar	Apr	May	June	Total	
	US$m	US$m	US$m	US$m	US$m	US$m	US$m	US$m	(%)
Civil Service	1687.6	120.4	147.4	143.6	132.6	133.4	142.0	819.4	48.6
Diplomatic Missions	32.4	2.7	2.7	2.7	2.7	2.7	2.7	16.2	50.0
Grant Aided Institutions	389.8	30.2	33.6	33.3	33.8	33.0	33.1	196.8	42
Pension	417	34.9	37.3	33.7	33.7	34.9	34.9	209.4	50.5
PSMAS	96	0	16	8.1	0	16.0	8.0	48.1	50.1
NSSA	21	0	1.8	1.8	0	3.5	1.7	8.8	41.9
Funeral Expenses	1.2	0	0	0	0	0.1	0.0	0.1	8.3
Total	**2 645**	**188.1**	**238.8**	**223.2**	**202.7**	**223.6**	**222.4**	**1 298.9**	**48.8**

Non-Wage Budget Support to Line Ministries: Jan – June 2013

Vote Appropriations	Budget Estimates	Amount Disbursed	Budget Utilisation	Share of Total Disbursed
	US$m	US$m	US$m	%
Office of the President and Cabinet	96,407,616	54,404,743	56.4%	11.0%
Office of the Prime Minister	12,436,071	9,311,715	74.9%	1.9%
Parliament of Zimbabwe	8,959,986	5,377,620	60.0%	1.1%
Public Service	12,135,263	3,133,390	25.8%	0.6%
Defence	96,851,131	40,977,695	42.3%	8.3%
Finance	73,980,593	41,308,406	55.8%	8.3%
Industry and Commerce	6,184,492	2,542,696	41.1%	0.5%
Agriculture, Mechanisation and Irrigation Development	84,869,078	36,171,918	42.6%	7.3%
Mines & Mining Development	5,310,172	1,276,985	24.0%	0.3%
Environment & Natural Resources Management	7,988,293	6,182,948	77.4%	1.2%
Transport & Infrastructural Development	63,712,164	14,609,163	22.9%	2.9%
Foreign Affairs	29,538,411	7,520,169	25.5%	1.5%
Local Government, Urban and Rural Development	46,910,430	12,085,029	25.8%	2.4%
Health and Child Welfare	185,144,318	26,091,813	14.1%	5.3%

Vote Appropriations	Budget Estimates	Amount Disbursed	Budget Utilisation	Share of Total Disbursed
	US$m	US$m	US$m	%
Education, Sport, Arts and Culture	44,481,354	11,498,512	25.9%	2.3%
Higher & Tertiary Education	63,138,577	9,400,027	14.9%	1.9%
Youth, Indigenisation & Empowerment	11,097,240	1,335,847	12.0%	0.3%
Home Affairs	89,324,489	51,473,549	57.6%	10.4%
Justice & Legal Affairs	97,823,162	72,066,665	73.7%	14.5%
Media, Information & Publicity	5,551,683	1,173,631	21.1%	0.2%
Small and Medium Enterprises & Cooperative Development	7,938,267	1,226,384	15.4%	0.2%
Energy and Power Development	20,136,233	633,688	3.1%	0.1%
Economic Planning & Investment Promotion	2,472,075	610,337	24.7%	0.1%
Science & Technology Development	4,514,673	1,108,754	24.6%	0.2%
Women Affairs, Gender & Community Development	4,943,328	538,264	10.9%	0.1%
National Housing and Social Amenities	16,424,742	2,015,947	12.3%	0.4%
Water Resources, Management and Development	77,559,437	45,362,390	58.5%	9.2%
State Enterprises and Parastatals	2,548,493	462,568	18.2%	0.1%
Labour and Social Services	30,880,962	9,324,613	30.2%	1.9%
Regional Integration and International Cooperation	2,547,636	1,116,238	43.8%	0.2%
Public Works	35,461,648	12,550,892	35.4%	2.5%
Constitutional and Parliamentary Affairs	10,348,022	2,691,915	26.0%	0.5%
Information Communication Technology	6,639,804	2,254,895	34.0%	0.5%
Lands and Rural Resettlement	8,415,890	3,062,301	36.4%	0.6%
Tourism & Hospitality Industry	6,904,583	2,719,697	39.4%	0.5%
Judicial Service Commission	7,736,985	1,747,473	22.6%	0.4%
TOTAL	1,287,317,301	495,368,877	38.5%	100.0%

Operations and Maintenance

206. Cumulative expenditures for period January to June 2013 amounted to US$370.5 million, against planned expenditures of US$290.3 million.

207. The expenditure overrun is primarily accounted for by the US$104.4 million support towards the conduct of the Constitutional Referendum and preparations for the holding of the Harmonised Elections, and the US$67.9 million payment of utility bills against tax arrears by utility providers.

208. Budget support towards core service delivery programmes across the sectors was compromised by the direction of resources in support of National Programmes, including the Referendum and servicing of some debt.

Selected Sector Disbursements: Jan – June 2013

	Budget Estimate US$ m	Amount Disbursed US$ m	Budget Utilisation (%)
Health	48.4	13.1	27.1
Education	45	5.7	12.6
Social Protection	25.7	7.1	27.6
Agriculture	18.6	3.4	18.3
Security	148.1	55.9	75.5
Maintenance of Infrastructure	5.8	0.8	13.8
Referendum / Elections	25.0	73.4	293.6
Foreign Travel	41.3	28.3	68.5

Education

209. The education sector has an overall non-wage budget provision of US$53.5 million, mainly in support of procurement of teaching and

learning materials, operational support to tertiary institutions as well as student support at tertiary institutions.

210. Over the period January to June 2013, the sector received budget support amounting to US$9.2 million, reflecting a 17% level of budget utilisation.

Selected Programmes: January to June 2013

Programme	Budget (US$)	Disbursement (US$)	Budget Utilisation (%)
Teaching & Learning Materials	13,600,000	2,000,000	14.7
Schools Supervision	852,000	429,200	50.4
Student Support – Cadetship	12,000,000	1,500,000	12.5
Universities	5,500,000	468,000	8.5
Support to Foreign Students	2,000,000	410,000	20.5
Total	34,302,000	4,807,200	14.0

Health

211. The US$55.0 million non-wage budget support to the sector is in support of revitalisation of health service delivery, focusing on primary and preventive health care, with emphasis on communicable, maternal, perinatal and nutritional conditions.

212. Budget support to the sector amounted to US$14.8 million during the period under review, constituting 26.9% level of budget utilisation.

213. Support to public hospitals and health centres, including mission hospitals and local authority health institutions, amounted to US$9.9 million, against targeted disbursements of US$16.7 million.

214. This level of support has compromised service delivery in general and is resulting in the re-emergence of payment arrears to providers of key services such as medical supplies, gases, bloods, and food provisions.

Maternal and Child Health

215. The Maternal and Child Health programme, which has a US$6 million budget provision, focuses on reducing the maternal and child mortality rates through the removal of user fees.

216. During the period January to June 2013, central and provincial hospitals including city health clinics in Bulawayo and Harare submitted claims amounting to US$3.5 million related to the provision of maternal services to around 27 078 women.

217. An amount of US$1.5 million was disbursed against these claims.

Constitutional Referendum

218. Following the approval of the new Constitution through the Referendum held on the 16th of March 2013, and the subsequent

approvals by the House of Assembly and Senate on 9 May and 14 May 2013, respectively, the new Constitution was assented into Law on 22 May 2013.

219. Against funding requirements of US$54.4 million and a constrained US$25 million budget provision for both the Constitutional Referendum and Harmonised General Elections, the 2013 National Budget supported the conduct of the Constitutional Referendum to the tune of US$45.9 million, broken down as follows:

- US$2 million for the procurement of indelible ink, printing of ballot papers and voter education pamphlets;
- US$2.5 million for voter education;
- US$3.5 million for Referendum materials;
- US$3 million for vehicle hire;
- US$0.5 million for training; and
- US$34.4 million for allowances.

Harmonised General Elections

220. Consultations amongst stakeholders indicate that the conduct of the harmonised Presidential and Parliamentary Elections requires US$132.5 million broken down as follows:

- US$16.5 million for voter registration;
- US$8.97 for voter education;

- US$15.6 million voter's roll inspection;
- US$91.6 million for the conduct of Election; and
- US$0.22 million for post-election expenses.

221. Against this requirement, US$96 million had been disbursed by 25 July 2013, in support of voter registration, voter education and nomination court exercises, as well as some of the requirements in support of the actual conduct of the elections. This leaves a balance of around US$36 million for which collective efforts are being made to close this gap, including from the diamond sector.

Social Protection

222. The 2013 National Budget provides US$25.7 million towards social protection programmes such as the Basic Education Assistance Module (BEAM) and cash transfers to child headed families, the disabled and the elderly.

223. Disbursements by end of June 2013 stood at US$7.1 million, against targeted support of US$15.4 million, thus undermining support to the vulnerable members of our society.

Selected Social Protection Programmes: Jan to June 2013

Programme	Budget (US$)	Disbursements (US$)	Budget Utilisation (%)
BEAM	15 000 000	5 000 000	33.3
Harmonised Cash Transfers	3 000 000	626 000	20.9
Health Assistance	2 000 000	400 000	20.0
Public Works	1 600 000	0	0
Rehabilitation of Disabled Persons	1 600 000	250 000	15.6

Education Assistance [BEAM]

224. The BEAM programme received budget support amounting to US$5 million. This was against outstanding claims of US$20 million which relate to 2012 second and third term fees (US$10 million) and 2013 first and second term fees (US$10 million).

Payment Arrears to Service Providers

225. The 2013 Budget Statement reported an arrear position of US$205.2 million as at 30 September 2012.

226. This arrear position, which is in the process of being validated, currently stands at US$101.4 million, following implementation of a US$143.0 million setting off arrangement against service providers' outstanding tax obligations to ZIMRA in December 2012, February and June 2013, respectively.

Arrears to Service Providers (US$)

Service/Service Provider	Unconfirmed Arrears as at 30 September 2012	Set-off Payments	Unconfirmed Arrears as at 30 June 2013
CMED	12,373,368	9,579,593	4,828,862
Net-One	4,994,308	3,934,679	1,718,379
Tel-One	91,466,971	73,729,756	32,274,629
ZESA	31,988,582	22,632,678	19,015,459
Water & Rates	64,347,051	33,135,150	43,600,091
Total	**205,170,279**	**143,011,856**	**101,437,420**

227. To inform a debt liquidation strategy, Line Ministries and Service Providers have, since April 2013, embarked on an exercise to validate the arrears reported above.

Non-Accumulation of Arrears

228. In support of the policy of non-accumulation of new domestic payment arrears, Government is implementing a strategy of payment of bills within 60 days from date of invoice.

229. To this effect, an amount of US$14.4 million had been paid by end of June 2013 against bills for the period January to April 2013 amounting to US$30.3 million.

Arrears Payment Plan Jan – Apr 2013 (US$)

Service Provider	Monthly Targeted Payments	January Bill	January Payments	February Bill	February Payment	March Bill	March Payment	April Bill
CMED	1,011,500	1,404,870	1,000,000	1,332,850	650,000	1,095,414	1,242,000	1,281,980
Net-One	421,167	274,142	275,000	250,031	240,000	255,282	255,279	284,176
Tel-One	1,424,967	2,961,648	1,425,000	2,535,518	836,000	3,116,644	1,425,033	3,527,472
ZESA	949,625	1,239,281	950,000	1,817,065	700,000	1,463,740	950,000	1,882,033
Water And Rates	845,283	1,311,583	846,000	1,665,279	910,000	1,224,204	1,500,000	1,422,639
Total	4,652,542	7,191,524	4,496,000	7,600,743	3,336,000	7,155,284	5,372,312	8,398,300

230. The Table above shows that the monthly bills are still above the agreed monthly targets indicating the continued need to align consumption to the available budgetary resources.

Consumption of Services in line with Budgeted Resources

231. Central to the containment of further accumulation of arrears is to realign the consumption of services in line with budgeted resources, timely billing and validation of bills between Service Providers and Ministries and the timely settlement of due payments.

232. In this regard, Treasury has engaged Line Ministries and Service Providers in the identification of policy and administrative measures that can be implemented with the objective of aligning the consumption of services to Budget provision and monthly cash flow targets.

233. To this end, the cooperation of Line Ministries and Service Providers is indeed critical.

Billing and Validation Arrangements

234. To facilitate timely billing and settlement of due payments, Service Providers and Line Ministries agreed to abide to a billing and validation arrangement shown below.

Billing and Validation Arrangement

Service Provider	Billing Dates	Validation Period
CMED	10th day of every month	2 weeks
Net-One	7th day of every month	1 week
Tel-One	7th day of every month	2 weeks
ZESA	25th day of the month	2 weeks
ZINWA	5th day of the month	1 week

2013 Budget Pressures

235. The 2013 National Budget has supported inescapable National Programmes beyond levels that had been budgeted for.

236. In particular, the conduct of the Constitutional Referendum, preparatory work towards the conduct of Harmonised Presidential and Parliamentary Elections and payment of outstanding allowances for the 2012 Population Census have entailed the mobilisation of around US$89.3 million outside the budgeted framework.

237. The conduct of the harmonised Presidential and Parliamentary Elections and hosting of the 20th session of the UNWTO General Assembly will require further mobilisation of additional resources in excess of US$140 million.

2013 Harmonised Presidential and Parliamentary Elections

238. As I have already alluded to above, the conduct of the Harmonised Presidential and Parliamentary elections requires additional resources amounting to US$132.5 million.

239. In this regard, I propose to table additional revenue measures to cover the shortfall.

UNWTO General Assembly

240. Finalisation of preparations for the hosting of the 20th Session of the UNWTO General Assembly for the period 24 to 29 August 2013 is now at an advanced stage.

241. The Ministry of Tourism and Hospitality Industry have indicated that an additional US$3.5 million is required for the successful hosting of this event.

2012 Population Census

242. Government made a commitment to pay outstanding enumerators' allowances carried over from 2012.

243. In this regard, resources amounting to US$12.4 million were mobilised for the payment of outstanding allowances to enumerators over the period to end of June 2013.

244. In the same vein, I am calling upon Development Partners to expedite fulfilling their pledged commitments to clear outstanding bills to service providers amounting to US$5.7 million.

Payment Arrears to Service Providers

245. As previously alluded, the un-validated arrear position to service providers stood at US$101.4 million as at 31st December 2012.

246. Benefiting from the validation exercise currently underway, it is pertinent that Government mobilises additional resources for the timely liquidation of these arrears.

CAPITAL DEVELOPMENT

247. The Development Budget seeks to improve access to infrastructure services as the bedrock for any socio-economic development in the country. Whilst rehabilitation and maintenance remains critical to restore existing assets, focus of the Budget has also shifted towards expansion of capacity.

248. In this regard, priority is now being given towards expansion of capacity for economic enablers such as energy, water and sanitation, transport and communications, and ICT in order to create a conducive business environment to attract foreign direct investment and ensure economic integration into the global economy.

249. Whilst US$1 billion in fiscal resources has been availed towards investments in infrastructure since 2009, this amount falls far short of the estimated annual requirement of US$1.4 billion as indicated in STERP in 2009.

250. Given the limited fiscal space and the huge infrastructure deficit facing the country, alternative infrastructure financing options will be required to ensure scaling up of infrastructure investments.

Capital Disbursements to June 2013

251. The 2013 Capital Budget of US$565 million targets infrastructure development (US$454 million), capacitation of Ministries (US$59 million) and agricultural production (US$52 million).

252. To end of June 2013, an amount of US$143.8 million or 25.4% of the Budget has been availed against a target of US$235.4 million. The Table below shows the disbursements to 30 June 2013:

Sector	2013 Budget (US$)	Disbursements to June(US$)	Disbursement as % of Budget
Energy	18 000 000	200 000	1
Transport & Communication	61 400 000	12 520 000	20
Water & Sanitation	97 225 000	50 530 000	52
Housing	66 073 000	8 190 000	12
ICT	27 210 000	7 300 000	27
Health	129 600 000	11 266 000	9
Education	53 290 000	11 550 000	22
Social Services	550 000	300 000	55
Agriculture	52 350 000	26 014 166	50
Furniture and equipment for Govt Ministries	8 236 000	877 764	11
Vehicles	5 211 000	150 000	3
Shareholding to International Organisations	8 000 000	7 524 000	94
Other	41 305 000	7 412 000	18
Grand Total	**568 450 000**	**143 833 930**	**25**

253. The constrained revenue receipts since January 2013 has resulted in priority being given to ongoing projects in critical sectors such as transport, health, education as well as water and sanitation to ensure reasonable progress and impact.

Progress on Implementation

Water and Sanitation

254. The provision of adequate water and sanitation services in both urban and rural areas remains a challenge on account of limited investment in maintenance and upgrading of infrastructure. In this regard, the sector continues to receive the bulk of the resources from the Budget.

255. Some of the key intervention areas that have received funding include dam construction and water conveyance infrastructure, rehabilitation and upgrading of water and sewer infrastructure in urban settlements and the rural water and sanitation programme with disbursements amounting to US$50.5 million as at 30 June 2013.

256. The Table below shows disbursements for major water and sanitation projects:

Project	Disbursements to June (US$)
Tokwe Murkosi Dam	34,180,000
Mutange Dam	1,000,000
Gwayi-Shangane Dam	4,300,000
Mtshabezi Pipeline	2,600,000
Wenimbi Pipeline	500,000
Local Authorities	4,150,000
Water Supplies	2,000,000
Rural Water and Sanitation	1,800,000
Grand Total	**50,530,000**

257. Notable progress has been realised on some water projects, particularly Tokwe Murkosi Dam, Wenimbi and Mtshabezi pipelines.

Tokwe Murkosi

258. The project continues to receive the bulk of fiscal resources. Construction of the main dam wall is at 46 metres out of the total height of 89.2 metres above ground level. All the five saddle dams are complete and works are now concentrated on completion of spillways and the main dam wall.

259. The impoundment of the main dam will commence in November this year whilst the project is expected to be complete in April 2014.

260. The relocation of more than 3 000 families has started in earnest and resources amounting to US$2.1 million have been availed in support of this exercise.

Gwayi-Shangani Dam

261. As part of measures to address water challenges facing the Matebeleland region, Government has resuscitated the construction of Gwayi-Shangani Dam.

262. To date, resources amounting to US$4.3 million have been disbursed. The contractor has established site and commenced work. Survey works and environmental impact assessment studies for the pipeline are also underway.

Mutange Dam

263. Since 2009, resources amounting to US$6.5 million have been expended towards the construction of Mutange Dam. Masonry works on the right bank thrust block and the spillway are complete whilst laying of the plunge pool concrete block is in progress. Construction of the left and right bank saddle dams is also complete.

264. The electrification of the pump station was completed following the construction of an electricity line and the installation of a transformer in January 2013. The re-alignment of Masoro-Nyarupakwe road and construction of a new bridge across the Mutange River downstream is 80% complete.

Mtshabezi Pipeline

265. The laying of the pipeline, construction of reservoirs, pump houses and staff houses are all complete. Pumping of water to Ncema Treatment Works commenced in January powered by generators pending installation of a transformer.

266. Works in progress include electrification of the pump house and completion of the workshop.

Wenimbi Pipeline

267. All the major works for the project such as laying of pipes, installation of pump sets, erection of the power line and electrification of the pump house and booster stations are complete.

268. Outstanding works include installation of electricity meters and energising of the pumps.

Support to Local Authorities

269. The deterioration of infrastructure which has seen most local authorities failing to meet demand for water and sewer services by residents remain a cause for concern prompting Government to intervene by extending loans targeting rehabilitation of water and sewer infrastructure.

270. As at end of June 2013, US$4.15 million had been disbursed to the local authorities as indicated in the Table below:

Local Authority	Disbursement (US$)
Chinhoyi Municipality	500 000
Chiredzi Town Council	300 000
Chegutu Rural District Council	100 000
Victoria Falls Municipality	1 400 000
Chivi Rural District Council	400 000
Buhera Rural District Council	200 000
UMP Rural District Council	450 000
Sanyati Rural District Council	500 000
Total	**4 150 000**

271. However, progress on some projects continues to be affected by procurement challenges and capacity constraints facing most local authorities.

Small Towns and Growth Points

Beitbridge Water Supply

272. An amount of US$1.2 million has been disbursed this year bringing the total disbursements since 2009 for the project to US$9.56 million.

273. To date, concrete works for sedimentation tanks 1-4, access road and a 2.2 km power line have been completed, whilst remedial works on the flood damaged pipeline are in progress.

Victoria Falls Water Supply

274. Government is upgrading the water supply to the resort town in preparation for the United Nations World Tourism General Assembly congress to be held in August 2013.

275. To June 2013, US$0.8 million had been disbursed to ZINWA to enable the parastatal increase raw water supply, whilst the Victoria Falls Municipality has received US$1.4 million for the rehabilitation and upgrading of the clear water distribution network.

276. A total of 23.8 km of the 24 km pipeline for clear water has been completed whilst work is currently underway for the 3 km raw water pipeline. One reservoir out of three is complete and work is in progress for the other two.

Rural Water and Sanitation

277. Resources amounting to US$ 1.8 million were availed to the District Development Fund (DDF) and the Department of Infrastructure Development (DID) for maintenance and rehabilitation of deep wells and boreholes.

278. DDF is targeting to rehabilitate 330 boreholes that were contaminated during the past rain season in Tsholotsho, Beitbridge,

Gokwe North and South, Mbire, Muzarabani, Nyanga and Chiredzi Districts.

279. DID on the other hand is targeting to rehabilitate 543 boreholes in Mutasa and Uzumba-Maramba-Pfungwe districts and further borehole rehabilitation works also expected in Mashonaland Central (Guruve) and Manicaland (Chimanimani). In addition, funding was also availed towards Development of Communal areas in Mashonaland East (Nyamande Rural Health Centre) and Matabeleland North (Chefunye Rural Health Centre).

Energy

280. The shortage of electricity in the country continues to hamper socio-economic growth with the majority of citizens being deprived of opportunities to improve their living standards. In this regard, ensuring sufficient supply of electricity remains a priority for the Budget.

281. Disbursements by Government since 2010 amounting to US$74.27 million have resulted in considerable refurbishment works being undertaken, particularly at Hwange and Kariba Power Stations. As a result, there was a marked decrease in outages and electricity output improved from as low as 818 MW to the current peak of 1 029 MW.

282. Government has facilitated the mobilisation of external financial resources for the sector, targeting generation and transmission infrastructure.

Electricity Generation

283. Achieving energy security will require the country to invest in additional generation capacity.

284. Government has now concluded a financing facility for Kariba South Expansion Project with China amounting to about US$355 million which should enable construction of two additional generation units of 150 MW each to commence soon.

285. In addition, the Hwange Power Station Rehabilitation Programme is set to receive US$28.6 million from India, targeting upgrading of Deka Pumping Station and the River Water Intake System.

Pre-Paid Meters

286. Financial sustainability in the energy sector depends on our ability to collect revenue from electricity consumed. The current metering, billing and collection system has resulted in the accumulation of arrears which have hampered reinvestment in the sector as well as attracting private sector financing.

287. In this regard, the Zimbabwe Electricity Transmission and Distribution Company is currently implementing the pre-paid metering project targeting 516 188 customers, which will allow the parastatal to collect revenue upfront and recover debt owed by customers.

288. Progress has, however, been slow as only 206 570 prepaid meters have been installed to date representing 34% of the targeted clientele. It is, therefore, critical that the project is speeded up to enable financial sustainability and investments in the sector.

Transport

289. Transport infrastructure development such as roads, aviation and rail remains critical in facilitating trade, people's mobility and creation of markets for communities.

Road Network

290. The physical condition of our road network particularly in the rural areas remains poor due to lack of periodic maintenance.

291. The limited financial resources of US$9.0 million focused on construction, maintenance and rehabilitation of roads and bridges

under the Department of Roads (US$7.3 million) and DDF (US$1.7 million).

292. The 18.3km Harare-Goromonzi turn-off road dualisation project received an amount of US$4.8 million. Works on this road are at different stages as depicted in the Table below:

Activity	Cumulative Progress (km)
Bush Clearance	15.3
Subgrade	13.02
Base 3	12
Base 2	10.68
Primed	8.03
Tacked	6.18
Sealed	5.77

293. The balance of US$2.5 million went towards payment of outstanding certificates carried over from 2012 for Harare-Masvingo, Hwedza-Sadza, Harare-Gweru, Makuti-Kariba roads, among others.

294. With regards to rural roads, DDF has managed to rehabilitate some of the roads that had been damaged during the past rain season.

Plumtree-Harare-Mutare Rehabilitation and Upgrading Project

295. The 820 km road rehabilitation project is being implemented through a joint venture company Infralink Pvt Ltd between the Zimbabwe National Road Administration (ZINARA) and Group Five International

of South Africa at a cost of US$206 million. Besides rehabilitation of the road, 9 new Toll Plazas will be constructed along the highway.

296. Notable progress has been recorded on the rehabilitation of the road as well as construction of the new Toll Plazas. To date, 493 km or 60% of the road has been completed, including the Toll Plaza after the 20 km peg into Bulawayo from Gweru.

297. A total of 103 km between Plumtree and Bulawayo has been resealed. Resealing has also been completed on the Bulawayo – Shangani stretch (98 km), Shangani – Gweru (56 km), Gweru – Norton (89 km) and Harare – Mutare (147 km).

298. With regards to toll plazas, the Toll Plaza at the 20 km peg from Bulawayo has already been commissioned. Other toll plazas are at different stages of completion, with Figtree at 99%, Treetop 75%, Kadoma 30%, Norton 90%, Rusape 90% and Mutare 5%.

299. Furthermore, plans to dualise the Norton-Kadoma section of this road are at an advance stage.

Airports Rehabilitation Programme

Harare International Airport

300. An amount of US$1 million has so far been availed towards rehabilitation of 2.7 km of the runway and the sewer project.

301. Works on the runway are in progress with 825 metres having been completed, whilst connection of the sewer to the municipal line is currently underway.

Victoria Falls Airport

302. Government is upgrading the airport to cater for wide bodied aircraft and increased traffic to the resort town.

303. Following conclusion of a finance facility for the project amounting to US$150 million and disbursement of US$45 million, the contractor for the runway has already mobilised and is on site with work now concentrated on excavations for the terminal building and runway.

Bulawayo Airport

304. Government is almost through with payments due to contractors following the last payment of US$1.3 million to the main contractor. This should facilitate the hand-over of the completed airport project to the Civil Aviation Authority who are also working on the new airport building information display systems.

Rail

305. As at 30 June 2013, an amount of US$1.2 million was disbursed towards rehabilitation of rail infrastructure. In addition to that,

Government further disbursed US$1.3 million to the NRZ, giving total disbursements of US$2.5 million. This leaves a Budget balance of US$6.5 million.

306. This amount, together with interventions over the last three years, has enabled NRZ to rehabilitate 18 locomotives, 76 coaches and 800 wagons.

307. This has resulted in an increase in the movement of cargo from 2.7 million tons in 2009 to 3.7 million tons per year in 2012. Additionally, there has also been a reduction in speed restrictions from 422.5 km to 295.1 km between 2010 and 2012, resulting in safety of passengers and improved turnaround times.

Information Communication Technology

E-Learning in Schools

308. Government is committed to promoting the integration of ICTs into the teaching and learning environment in order to establish modern learning opportunities that will help our children in their future lives.

309. The target for this year is to provide computers, internet connectivity equipment and other accessories to 31 schools. By end of June

2013, an amount of US$1.3 million had been disbursed, targeting schools listed in the following Table.

Name of School	Province
Nyandoro Primary School	Harare
Nyatate Secondary School	Manicaland
Chancellor Primary School	Manicaland
Makanya Secondary School	Midlands
Darwin Primary School	Mashonaland Central
Gorwa Primary School	Mashonaland Central
Mawabeni Primary School	Matabeleland North
Mabunga Primary School	Matabeleland South
Dulibadzimu Primary School	Matabeleland South
Chinotimba Primary School	Matabeleland North

E-Government

310. Implementation of ICTs in the public sector will enable better policy outcomes, higher quality service delivery and better engagement with citizens. In this regard, the Budget targets adoption of e-application programmes for selected departments within the Public Sector.

311. By end of June 2013, US$5 million had been disbursed, targeted at improving service delivery at the Liquor Licencing Board, Chitungwiza Central Hospital and the Deeds Office, among others.

312. Most of the applications are ready to go live once the software licenses have been procured.

Education

313. Interventions in the education sector have largely been targeting the construction and rehabilitation of infrastructure.

314. Disbursements to the institutions of higher learning for the period under review amount to US$5.9 million targeting Lupane Faculty of Agriculture, halls of residence, Bindura Faculty of Science Education as well as library, chemistry and chemical engineering buildings at NUST.

315. Construction works for the Bindura Faculty of Science Education are complete and the building has been handed over to the institution.

316. With regards to the Lupane Faculty of Agriculture, the academic block has been completed whilst work on the faculty block is nearing completion.

Halls of Residences

317. Works at the three institutions targeted are at various stages of implementation.

318. At Bindura University, the female and male hostels are at third and first floor levels, respectively. The two warden houses are at roof level.

319. With regards to Lupane University, construction works for the male hostel is at second floor whilst the female is at ground floor level. The two warden houses have been roofed.

320. Construction works for the male hostel at Midlands University is at ground floor level whilst the female hostel is at first floor level. The warden houses are at ring beam level.

Primary and Secondary Schools

321. Support extended to primary and secondary schools this year amounts to US$5.5 million, targeting rehabilitation and construction of classroom, administration, technical and ablution blocks.

322. The Table below shows the number of schools per province that have benefited from Government support this year:

Province	**Number of Schools**	**Amount (US$)**
Bulawayo	10	673,000
Harare	9	721,000
Manicaland	17	686,000
Mashonaland Central	14	565,000
Mashonaland East	14	531,000
Mashonaland West	11	247,000
Masvingo	16	414,000
Matebeleland North	16	649,000
Matebeleland South	15	555,000
Midlands	15	459,000
Total	**137**	**5,500,000**

Health

323. Government continues to prioritise the resuscitation of the health delivery system. To this end, resources amounting to US$11.2 million have so far been availed towards rehabilitation of infrastructure, procurement of equipment and hospital supplies.

324. The thrust is to re-establish and integrate the health referral system from primary health centres to central and specialist hospitals.

325. The following Table shows the institutions that have benefited from the disbursed resources:

Disbursements to Health Institutions (US$)

Institution	Cummulative Disbursements to 30 June 2013
Government Hospitals	
Central Hospitals	
Chitungwiza Central Hospital	370,570
Harare Central Hospital	300,000
Mpilo Central Hospital	800,000
Parirenyatwa Group of Hospitals	970,000
United Bulawayo Hospitals	310,000
Sub-total	2,750,570
Provincial Hospitals	
Bindura Provincial Hospital	946,592
Chinhoyi Provincial Hospital	70,546
Marondera Provincial Hospital	245,169

Institution	Cummulative Disbursements to 30 June 2013
Masvingo Provincial Hospital	36,075
Ngomahuru Provincial Hospital	31,634
Sub-total	1,330,016
District Hospitals	
Beitbridge District Hospital	219,197
Binga District Hospital	315,791
Chiredzi District Hospital	60,320
Mahusekwa District Hospital	400,088
Mvuma District Hospital	228,573
Nkayi District Hospital	340,711
Rusape District Hospital	405,782
Shurugwi District Hospital	468,000
Victoria Falls District Hospital	1,434,650
Other District Hospitals and Clinics	739,946
Medical Equipment	840,000
Sub-total	5,453,058
Mission Hospitals	
Bonda Mission Hospital	120,000
Chireya Mission Hospital	98,800
Chitsungo Mission Hospital	82,784
Father O-Hea Mission Hospital	125,000
Gandachibvuwa Mission Hospital	210,000
Gutu Mission Hospital	160,000
Manama Mission Hospital	150,000
Mary Mount Mission Hospital	120,000
Munene Mission Hospital	122,000
Mutambara Mission Hospital	180,000
Pumula Mission Hospital	140,000
St Alberts Mission Hospital	91,200

Institution	Cummulative Disbursements to 30 June 2013
St Josephs Maphisa Mission Hospital	62,572
Sanyati Hospital	20,000
Sub-total	1,682,356
Total	11,216,000

326. As a result of the intervention, commendable progress and improved service delivery has been noted, particularly at Parirenyatwa and Chitungwiza Central hospitals.

Radiotherapy Equipment

327. In an effort to address the challenges faced by cancer patients in accessing radiotherapy services, Government availed US$11.3 million in 2012 for the revitalisation of Radiotherapy Treatment Centres at Parirenyatwa Group of Hospitals and Mpilo Central Hospital.

328. Installation of the equipment at Parirenyatwa has been completed and acceptance testing is in progress.

329. With regards to Mpilo Central Hospital, upgrading of the building is still underway, after encountering delays due to challenges in the finalisation of drawings.

Chinese Medical Equipment Loan Facility

330. Government secured a US$89.9 million Loan Facility from the Peoples' Republic of China for the purposes of procuring medical equipment, critical for re-establishing the referral system.

331. Following disbursement of the initial US$29.985 million under the facility on June 27, 2013 procurement of equipment by the supplier has commenced and delivery of the equipment is expected to commence during the second half of the financial year.

Housing

332. The 2013 Budget has a provision of US$66.1 million for construction of institutional and housing development. Disbursements to date amount to US$7.7 million, targeting the Public Service Training Institute, CID Headquarters, composite offices among others.

333. With regards to housing development, Government in 2010 established a housing facility for the construction of flats and servicing of stands for sale to the public countrywide. In order to sustain the programme, the proceeds from the sale of housing units and stands is being re-invested into the sector.

334. The following are some of the projects that have benefited from this facility:

Project Name	Number of stands / Units	Project Disbursements (US$)	Status
Willovale Flats - Harare	240 two bedroomed units	11,583,995	Completed and units now being sold to the public
Chikanga - Mutare	169 high density stands	893,427	Completed and stands now being sold to the public
Lower Paradise Park - Marondera	107 low density stands	937,064	Completed and stands now being sold to the public
Mbizo 22 - Kwekwe	688 high density stands	3,830,710	Completed and stands now being sold to the public
Sunway City- Harare	225 low density stands	1,169,370	Completed and stands now being sold to the public
Dzivarasekwa Phase 2- Harare	800 high density stands	2,015,969	On going
Parklands Mews- Bulawayo	137 low density stands	1,643,775	On going
Carrigh Creagh - Harare	66 low density stands	10,724,357	On going
Tshovani Township – Chiredzi	200 high density stands	142,463	Feasibility studies complete
Spitzkop- Gwanda	330 high density stands	172,974	Preliminary reports out
Nemanwa- Masvingo	223 high density stands	150,610	Preliminary reports out
Cherutombo - Marondera	200 high density stands	105,381	Preliminary reports out
Checheche - Chipinge	100 high density stands	24,154	Preliminary reports out
Marimba - Harare	677 high density stands	319,255	Preliminary reports out
Murereki- Makonde	200 medium to low density stands	217,842	Preliminary reports out
Tafara Flats	24x2 bedroomed units	1,275,000	On going
Mufakose Flats	32x2 bedroomed units	1,100,000	On going
Merrivale Flats	12x3 bedroomed units	500,000	On going
Mbire F14 Houses	4 units	100,000	On going
Total		**36,906,346**	

Agriculture

Irrigation

335. The development and rehabilitation of irrigation infrastructure is critical for sustainable agricultural production and food security.

336. To date, a total of US$1.6 million has been disbursed towards the settlement of outstanding invoices and the establishment of drip irrigation demonstration plots at Bulawayo Kraal, Redwood, Chiduku, Tikwiri and the Zimbabwe Institute Technology Centre irrigation schemes.

Public Private Partnerships

337. Given the limited fiscal space and the huge infrastructure deficit in the country, Public Private Partnership arrangements are an alternative method of financing public infrastructure development.

338. The Plumtree-Harare-Mutare rehabilitation and upgrading project, covering 820 km, bears testimony to the socio-economic benefits of this financing model.

339. Uptake of projects has, however, remained low due to the absence of legal, policy and institutional regulatory frameworks. Work on the draft PPP bill has commenced whilst Treasury has set up a PPP team that will form the nucleus of the proposed PPP Unit.

340. It is imperative that the necessary capacity is established in the Public Sector in order to enhance project planning, negotiation and implementation under this financing model.

Outstanding Payments to Contractors

341. The limited fiscal space we are facing has resulted in disbursements failing to match actual works on projects. As a result, outstanding payments on projects have continued to accumulate, thereby affecting smooth execution of projects and viability of contractors.

342. The Table below shows the outstanding amounts owed to contractors on a month by month basis.

Outstanding Obligations to Contractors (US$)

Sector	December 2012	January	February	March	April	May	June
Water and Sanitation	18,898,130	36,896,900	39,750,874	41,183,999	44,409,789	34,788,239	56,568,334
Energy	4,631,269	-	-	-	-	-	
Transport	7,153,352	6,455,287	11,161,118	11,018,810	11,469,618	8,711,849	9,404,864
Health	6,493,324	5,842,324	5,758,324	6,701,138	6,201,138	7,634,697	6,734,697
Education	8,789,917	8,810,825	8,326,377	8,147,225	7,957,232	7,760,984	8,201,876
Housing Development	2,712,676	1,227,004	1,880,018	1,939,499	2,091,704	1,664,313	1,867,177
Agriculture-Irrigation Projects	1,300,000	1,637,758	1,637,758	1,637,758	1,637,758	1,637,758	1,937,758
Grand Total	**49,978,667**	**60,870,098**	**68,514,470**	**70,628,429**	**73,767,239**	**62,197,840**	**84,714,705**

343. There is, therefore, need to strengthen the targeted approach by limiting the number of projects under implementation, guided by resource availability.

IV. PUBLIC ENTERPRISE REFORMS

344. Public outcry emanating from the inability of Public entities to fulfill their mandate efficiently became a concern to Government,

culminating in the establishment in March 2009 of an Inter-Ministerial Committee on Commercialisation and Privatisation of Parastatals (IMCCPP).

345. The IMCCPP was mandated to spearhead the implementation of the policy on State Enterprises and Parastatals reform.

346. Cabinet initially approved that ten (10) Public entities be reformed in the first phase but the list was increased to 18 in 2012.

347. In terms of the current implementation arrangement, the IMCCPP presents to Cabinet on a case by case basis Memorandum on each of the Public entities identified for reform after consideration. The Memorandum that is presented to Cabinet by the IMCCPP is prepared by the Parent Ministry working with the State Enterprises and Restructuring Agency (SERA) and the accounting authority of public entity to be reformed. Ministry of finance as the chairperson of the IMCCPP convenes the IMCCPP meetings.

348. The current challenge being experienced in the implementation is that although Ministry of Finance has on several occasions requested line Ministries to submit Memorandum for consideration, the Parent Ministries in charge of Public entities selected for reform have not heeded to this call.

349. Since establishment of the IMCCPP four years ago, only 6 out of 18 Public entities had their Memoranda presented to the IMCCPP for consideration. Of the six Memoranda considered only four were presented to and approved by Cabinet. These Memoranda were for the Agricultural Development Bank (Agribank), Peoples Own Savings Bank (POSB), Zimbabwe Power Company (ZPC) and Zimbabwe Grain Bag. Thus only about 33% of the targeted Public entities Memoranda have been considered.

350. Clearly the pace at which the reform agenda is progressing is a cause for concern. This, therefore, calls for the need by Government to urgently revisit the strategy for reforming Public entities if the desired result of improving performance of State Enterprises and Parastatals is to be achieved.

351. Below is the status of the reform Programme.

Sector	Name of Entity	Status
Financial Services	1. Agribank	Done
	2. POSB	Done
	3. ZIMRE	Done
Telecommunications	4. Air Zimbabwe Holdings (Pvt) Limited	Not done
	5. National Railways of Zimbabwe	Not done
	6. Civil Aviation Authority of Zimbabwe (CAAZ)	Not done
	7. NetOne	Not done
	8. TelOne	Not done

Sector	Name of Entity	Status
Agriculture	9. ARDA	Not done
	10. Allied Timbers	Not done
	11. Grain Marketing Board (GMB)	Awaiting consideration by Cabinet
	12. Zimbabwe Grain Bag	Done
	13. Cold Storage Company (CSC)	Not done
Mining	14. ZMDC subsidiaries	Not done
Water	15. ZINWA	Not done
Energy	16. ZESA Holdings	Not done
	17. Zimbabwe Power Company	Done
Manufacturing	18. IDC subsidiaries	Not done

V. FUNDS

352. Extra Budgetary Funds established in terms of section 18 of the Public Finance Management Act handle huge sums of money.

353. Such Funds include the Number Plate Revolving Fund, Registrar General Department Fund, Zimbabwe Republic Police Revolving Fund, Immigration Services Fund, among others. These Funds use Manual accounting systems which have resulted in them failing to produce financial statements on time for audit and consolidation.

354. In order to improve on accountability, Treasury will embark on exercise of computerising accounting systems for these Extra Budgetary Funds.

VI. IMPLEMENTATION OF ZAADDS

355. Government in 2012, adopted the Zimbabwe Accelerated Arrears Clearance Debt and Development Strategy (ZAADDS), whose main thrust includes having an accurate and comprehensive external debt database which is fully reconciled and validated with all creditors, establishing a single entity responsible for debt management, re-engagement with all creditors on debt relief and arrears clearance, and leveraging the country's natural resources for inclusive economic growth.

356. To date, notable progress has been achieved in implementing ZAADDS.

Validation and Reconciliation of External Debt Database

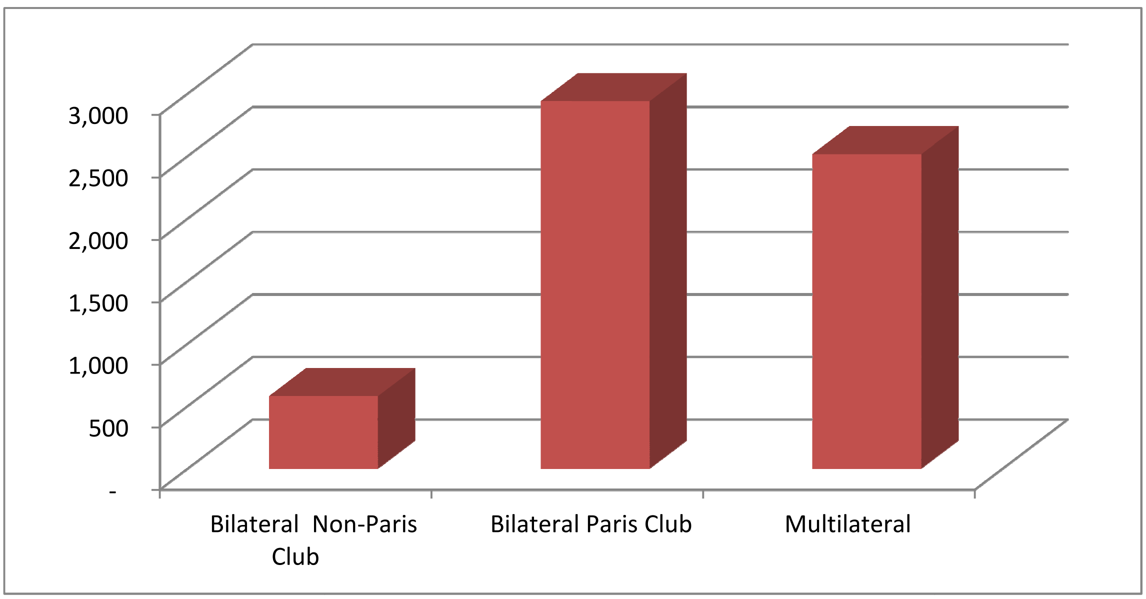
357. Government acknowledges, and is still saddled with a huge public and publicly guaranteed external debt overhang, which stood at US$6.045 billion (62%) of the country's GDP as at end of 2012. The stock of accumulated arrears accounted for US$4.687 billion (77%) of total debt stock.

358. Therefore, there is an urgent need to accelerate in dealing with this challenge in order to achieve our targets as enunciated in the

Medium Term Plan (MTP), 2011 – 2015 and the Millennium Development Goals (MDGs).

359. The validation and reconciliation exercise of the external debt data base with the assistance of UNCTAD and MEFMI, is at its final stage with more than 97% reconciled on the public and publicly guaranteed debt (US$6.033 billion). (See Annex 1 for more details)

Public and Publicly Guaranteed Debt as at 31 December 2012

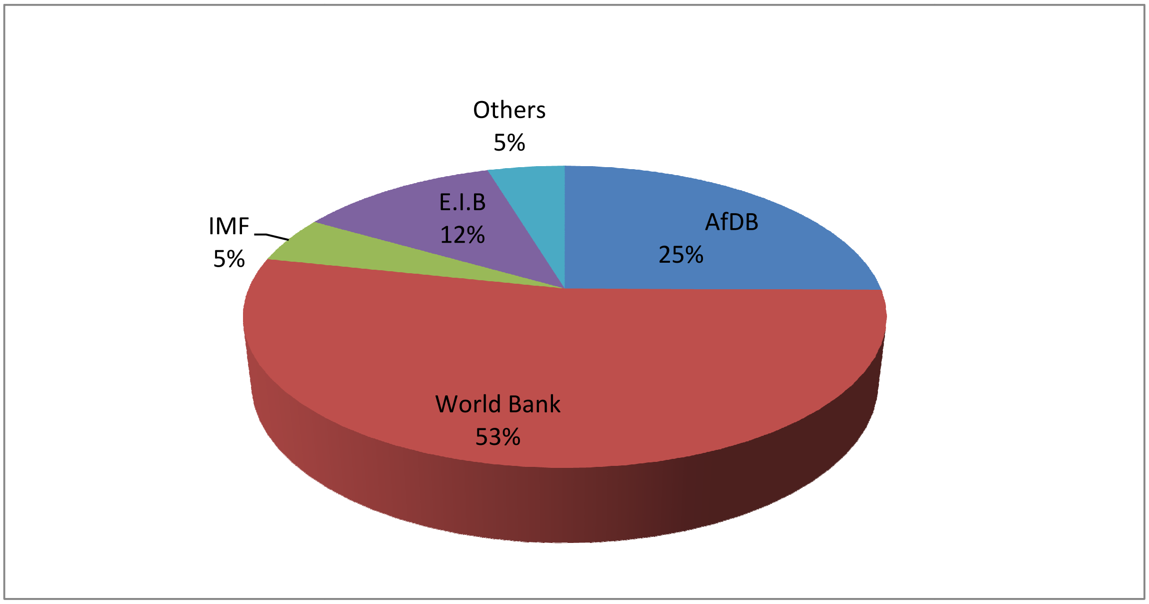


360. Of the public and publicly guaranteed debt, USD2,938 billion, is owed to the Bilateral creditors, USD2,527 billion to the Multilateral creditors and USD580 million to the Non-Paris club which include China.

361. Of the total multilateral debt, USD1,351 billion (53%) is owed to the World Bank, USD632 million to the African Development Bank (AfDB), USD302 million to the European Investment Bank (E.I.B), USD125

million to the International Monetary Fund (I.M.F) and USD117 million to other multilateral creditors.

Multilateral Debt as at 31 December 2012



Debt Indicators 2011 and 2012

Ratio	2011	2012
Debt to GDP	66%	62%
Debt to Revenue	200%	173%
Debt to Exports	130%	149%
Debt Service to Revenue	1.2%	1.9%
Debt Service to Exports	0.8%	1.7%

Note: *Zimbabwe CPIA is 2, and is regarded as a weak performer*

Legal and Institutional Framework for Debt Management

362. In order to effectively implement ZAADDS, it is critical that the Debt Management Office is strengthened by a legal and institutional

framework for effective debt management in Zimbabwe. This can be achieved through the establishment of a modern and effective institutional framework for debt management.

363. Currently, the Public Finance Management Act (PFM Act) of 2010 is the main legislation governing the contraction of external debt. However, the Act does not cover in detail issues concerning objectives, limits and coverage of borrowing as well as the role of Parliament.

364. In this regard, ZADMO held a high level workshop on legal and institutional framework for debt management in March 2013. It was agreed that there is need to formulate a new Public Debt Management Act.

365. This will give a renewed impetus to the efficient and prudent management of debt within a professional and legal framework.

Arrears Clearance and Debt Relief Framework

366. Government, through the Ministry of Finance has come up to a stage where there has to be accelerated growth within the context of Zimbabwe Accelerated Reengagement Economic Programme.

367. The economic programme, the Zimbabwe Accelerated Reengagement Economic Programme (ZAREP), 2012 – 2015, will facilitate the accelerated re-engagement with the development partners on policy and reform measures.

368. ZAREP will support and anchor arrears clearance and debt relief initiatives and mechanisms through the establishment of a good track record of implementing sound macro-economic policies.

369. The strong support of all creditors will be crucial for the rapid implementation of a comprehensive arrears clearance and debt relief programme, critical for the realisation of Zimbabwe's sustained and inclusive economic development agenda.

IMF Staff Monitored Programme

370. In this regard, in June 2013 the Government of Zimbabwe entered into an IMF Staff Monitored Programme (SMP). The programme is very important in supporting Zimbabwe's macroeconomic and stabilisation efforts, building a track record of policy towards a future Fund supported programme and normalise relations with the international community.

371. The programme will focus on the following:

- Fiscal consolidation and strengthening public financial management;
- Enhancing financial sector stability and reducing vulnerabilities;
- Reforms at the Reserve Bank of Zimbabwe including restructuring its balance sheet; and
- Implementing a prudent borrowing strategy and strengthen debt management.

372. With support from the World Bank and African Development Bank (AfDB), the Government is also commited to initiate the development of an Interim Poverty Reduction Strategy Paper (I-PRSP) guided by the Medium Term Plan (MTP) 2011-2015.

Debt Management Policy

373. Going forward, the main thrust of Government's external borrowing will be to borrow on concessional terms for developmental projects which have a multiplier effect on the economy, especially in the areas of energy and transport.

374. The clearance of our arrears and obtaining debt relief from our creditors will be a priority of the Government. This will enable the country to access new financing from international capital markets and development partners to fund our huge infrastructure financing deficit estimated at US$15 billion over the next five years. This will

enable us to fund various social programmes critical to sustainable and inclusive economic growth and development.

Official Development Assistance (ODA)

375. You may recall that in the 2013 National Budget Statement, I indicated that external development assistance inflows for the year 2012 amounted to US$651.1 million. This figure was based on actual disbursements for the nine-month period to end September 2012.

376. I wish to advise that the revised actual disbursements for 2012 amounted to US$934.4 million against a revised indicative pledge of US$635.3 million. This support was channelled towards agriculture, health, education, social protection and governance.

377. Of the US$934.4 million disbursed, bilateral and multilateral development partners contributed US$709.8 million and US$224.6 million, respectively.

378. You may also recall that development partners had provisionally projected to disburse US$333 million in 2013, pending finalisation of their 2013 budgetary processes.

379. In light of the above, I am pleased to advise that the revised pledges for 2013 amount to US$558.5 million, of which US$87.7 million was

disbursed over the period January-March 2013. During this period bilateral and multilateral development partners disbursed US$82.1 million and US$5.6 million, respectively.

380. In the first quarter of 2013, the main beneficiary sectors of development assistance remain those of agriculture, health, education, social protection and governance. The bulk of these funds are disbursed through Trust Funds managed by UNICEF, African Development Bank and the World Bank, thereby providing a platform for Government – Development Partner coordination.

381. However, we still bemoan the continued bypassing of Government budget structures by development partners, preferring to channel their support through other mechanisms.

382. The tables below show the development assistance received during the first quarter of 2013.

Bilateral Development Assistance 2012 and 2013

Development Partner	Pledges Jan-Dec 2012	Cumulative Disbursements Jan-Dec 2012	Pledges Jan - Dec 2013	Cumulative Disbursements Jan - March 2013
Australia	39,200,000	49,712,284	35,000,000	6,979,633.88
Canada	13,467,145.08	16,748,444	387,263.04	8,024,526.28
China	-	-	-	8,390,000
Denmark	25,406,545.51	24,932,530	39,475,643.37	-
European union	74,899,389.89	75,366,678.17	89,314,578.66	7,500,269.79
Finland	5,320,000	-	5,320,000	-
France	2,240,599.64	2,501,900	2,658,464.39	-
Germany	43,765,250	44,269,000	25,309,600	2,950,500

Development Partner	Pledges Jan-Dec 2012	Cumulative Disbursements Jan-Dec 2012	Pledges Jan - Dec 2013	Cumulative Disbursements Jan - March 2013
India	-	-	-	-
Ireland	3,975,000	421,470	-	-
Japan	17,081,505	17,081,505	3,189,789	3,189,789
Netherlands	17,922,538	17,646,718	17,677,584	3,782,009
Norway	23,420,000	20,141,490	27,007,000	265,000
Sweden	34,500,000	38,408,097	34,000,000	4,717,549
Switzerland	18,669,454.22	19,917,626	14,782,800	11,285,747.37
UK	201,069,000	201,069,000	184,450,000	21,422,000
USA	131,662,000	143,676,792	46,300,000	3,625,761.63
Total	**652,598,427.34**	**671,893,534.17**	**524,872,722.46**	**82,132,785.95**

Multilateral Development Assistance 2012 and 2013

Development Partner	Pledges Jan-Dec 2012	Cumulative Disbursements Jan-Dec 2012	Pledges Jan-Dec 2013	Cumulative Disbursements Jan-March 2013
Food and Agriculture Organisation	-	185,878	573,519	222,742
International Labour Organisation	-	386,941	351,333	343,487
UN Development Programme	-	6,939,182	6,128,500	665,881
UN Population Fund	-	4,250,711	4,280,058	634,277
UN Children's Fund	-	6,305,818	15,333,844	1,655,264
World Health Organisation	-	5,507,138	4,285,184	1,285,286
World Food Programme	-	-	-	-
UNAIDS	-	426,337	528,800	237,431
International Office for Migration	-	-	-	-
UN Educational, Scientific & Cultural Organisation	-	755,627	540,600	135,807
UN Habitat	-	-	-	-
UN Women	-	686,352	1,246,326	392,360
International Fund For Agricultural Development	-	160,000	-	-
World Bank	-	7,302,330	-	-
UN Conference on Trade and Development	-	332,597	331,601	-
United Nations Industrial Development Organisation	-	-	50,000	-
UN High Commission for Human Rights	-	47,700	-	-
Global Fund for HIV/AIDS, TB and Malaria	-	191,124,115	-	-
African Development Bank	-	145,770	-	-
Grand Total	**-**	**224,556,496**	**33,649,765**	**5,572,535**

Programmatic Multi Donor Trust Fund (Zim-Fund)

383. Progress on the implementation of the Urgent Water Supply and Sanitation Rehabilitation Project, as well as the Emergency Power Infrastructure Rehabilitation Project has improved significantly since the beginning of the year.

384. To date, all Development Partners' commitments to the Zim-Fund, amounting to US$125 million, have been fully disbursed into the African Development Bank account.

385. As alluded to in my previous budgets, the thematic scope of the Zim-Fund Phase I focuses on investments in power (US$35 million) and water & sanitation (US$29.65 million).

386. The Table below shows disbursements to the two projects as at end of May 2013.

Zim-Fund Disbursements: 2011 to Date (US$)

Project	Allocation (US$)	Disbursement (US$)	Disbursement Rate (%)
Power	35	3.12	8.9
Water and Sanitation	29.65	2.84	9.8
Total	**64.50**	**5.96**	**9.2**

387. As highlighted in the Table above, the disbursement rate of the water and power projects is 8.9% and 9.8%, respectively.

388. Going forward, the combined disbursement rate for the 2 projects, currently at 9.2%, is expected to significantly increase given that most contracts, notably 10 out of 13 for the water and 5 out of 7 for the power projects, have already been awarded. This paves way for physical implementation of the projects, which is expected to be complete by 30 September 2014.

389. Work on approval of the Zim-Fund second phase projects targeted at power and water & sanitation is at an advanced stage, with implementation expected to begin by year end.

390. May I take this opportunity to convey my profound appreciation, and that of the Government of Zimbabwe, to development partners who have generously contributed to the Zim-Fund. In the same vein, I am inviting other development partners to augment these efforts by putting their resources into the Zim-Fund.

391. This collaboration has indeed not been in vain, as the projects are expected to benefit the majority of Zimbabweans once implemented, through increased power reliability, as well as improved quality and availability of water supply and sanitation systems.

Results Based Financing Trust Fund

392. As you are aware, the World Bank has been supporting the Ministry of Health & Child Welfare's US$15 million Health Initiative Project,

funded under the Multi Donor Trust Fund for Results Based Financing (RBF).

393. The Project earmarked key maternal and neonatal health interventions in 18 targeted rural districts of Zimbabwe, as well as, strengthening institutional capacity of the country's health system.

394. Given the impressive rolling-out of the Health Initiative Project, in December 2012, Government requested for additional funding amounting to US$20 million from the World Bank, which has been granted. To this effect, the World Bank has since availed US$850,000 grant to facilitate preparation of the project.

11th European Development Fund Programming

395. In view of the on-going re-engagement with the European Union, Government and the European Delegation to Zimbabwe are in the process of jointly programming for the 11th European Development Fund (EDF), whose budget of €29.1 billion will benefit African, Caribbean and Pacific (ACP) states.

396. The first phase was completed in October 2012, whereby a draft Country Strategy Paper and proposed areas of cooperation for the 11th EDF were submitted to EU.

397. Individual country allocations are yet to be finalised. However, we hope that Zimbabwe, which missed on the 9th and 10th EDF, will benefit from the 11th EDF allocation.

Lines of Credit

398. As alluded to in my previous National Budget Statements, and recently in my Treasury State of the Economy Report for April 2013, the manufacturing sector remains saddled with a number of challenges, chief among them liquidity.

399. In response to this challenge, Government has since the formation of the Government of National Unity implemented various lines of credit facilities with local banks to improve the accessibility to cheaper financing.

400. These lines of credit were secured from regional financial institutions and foreign governments, and channelled to qualifying beneficiaries through local banks.

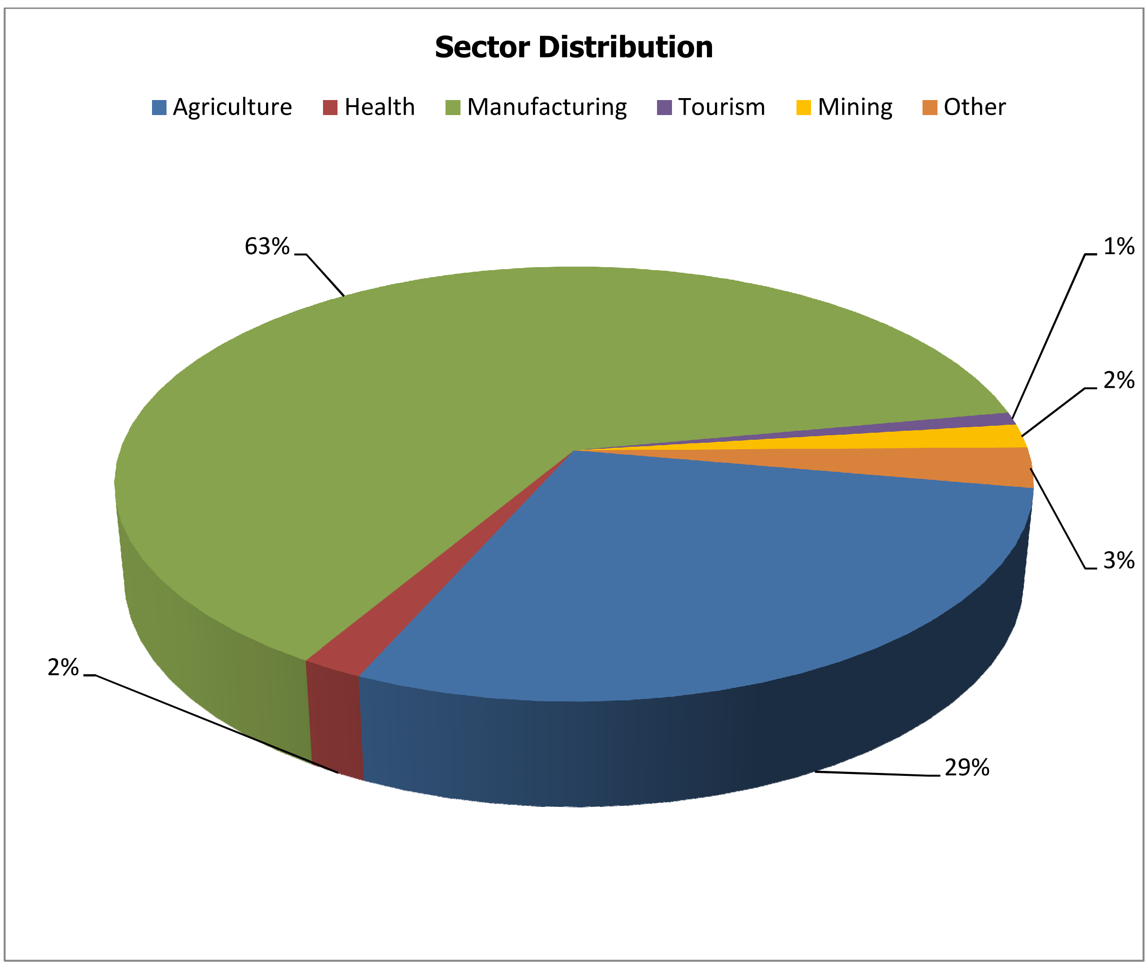
401. Below is an update on the various facilities implemented to date.

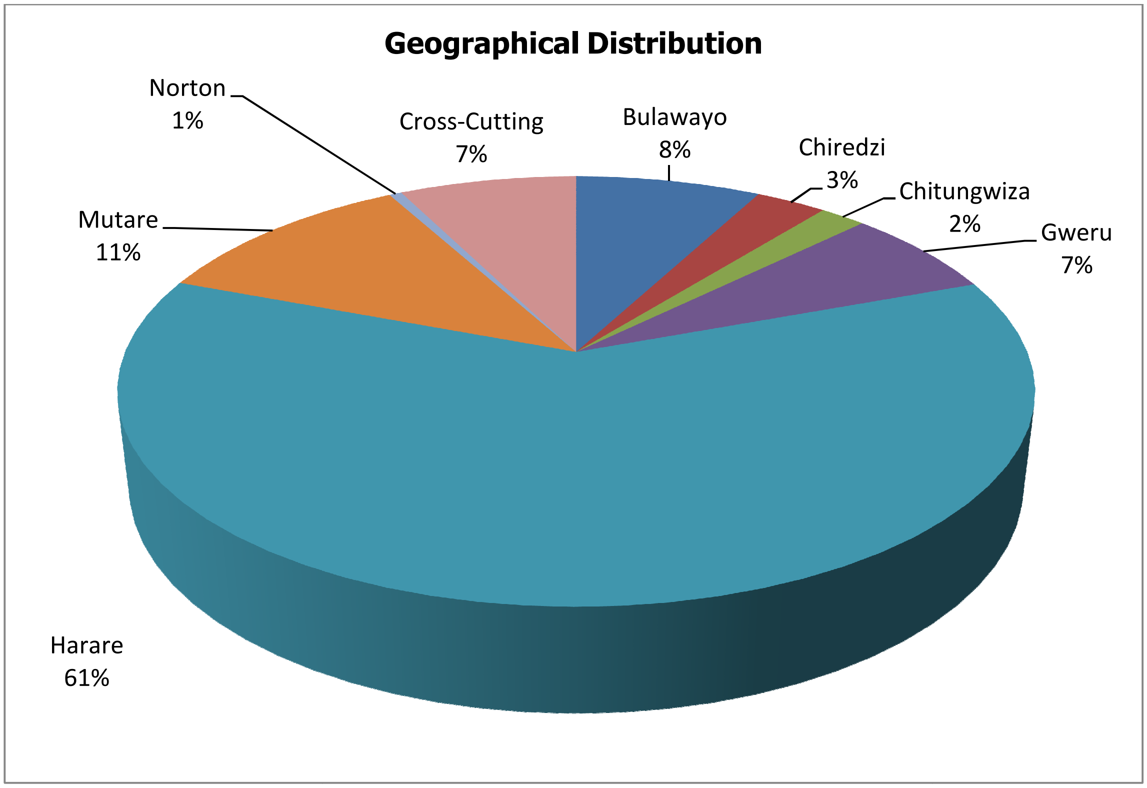
Zimbabwe Economic and Trade Revival Facility (ZETREF)

402. Disbursements under ZETREF have risen from the December 2012 amount of US$27 million to US$42.8 million as at 31 May 2013 out of cumulative approved projects worth US$68.3 million.

403. Access to this Facility has allowed some beneficiaries who were on the brink of collapse to recover whilst others have also increased their capacity utilisation as well as maintaining their employment levels.

404. The sector and geographical distribution of ZETREF disbursements is depicted in the pie charts below:





ZETREF Challenges

Distressed Industries and Marginalised Areas Fund (DiMAF)

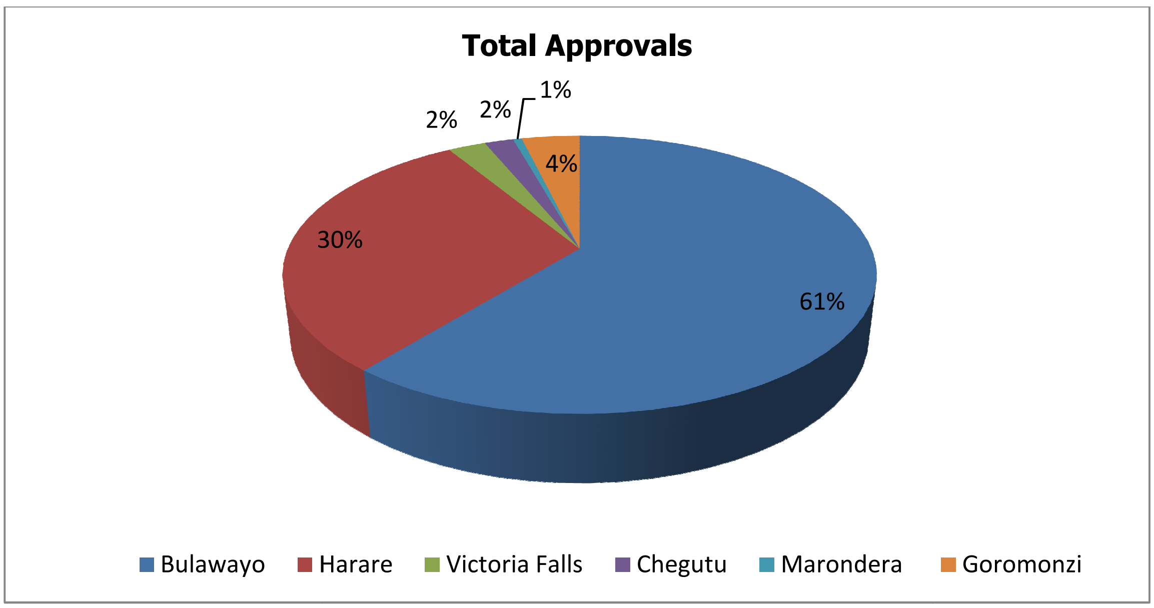
405. As at end May 2013, applications received by the Administrative Agent, CABS, amounted to US$61.1 million of which projects worth US$26.5 million were approved, with disbursements to date amounting to US$18.8 million.

406. The Table below shows the applications, approvals and disbursements for DiMAF.

DiMAF

	Jan-Dec 2012 US$ m	Jan-May 2013 US$ m	Total US$ m
Applications	49	12.1	61.1
Approvals	16.2	10.3	26.5
Disbursements	12.9	5.9	18.8

407. The following is the geographical distribution of DiMAF projects since inception:



US$15 Million Micro, Small and Medium Enterprises Facility

408. In my 2013 Budget Statement, I advised that resources amounting to US$15 million were being mobilised under the Micro-Finance Revolving Facility, with equal contributions from Government of Zimbabwe, BADEA and CBZ Bank Limited.

409. The objective of this Facility, administered by CBZ Bank Limited, is to finance productive enterprises and services to enable them to contribute to economic development.

410. Disbursements to date amount to US$8.7 million being US$6.2 million for small and medium enterprises and US$2.5 million for micro enterprises.

Pipeline Facilities

411. Government is still pursuing lines of credit from South Africa (ZAR 575 million), Angola (US$50 million), Botswana (BWP 500 million), India (US$100 million) and Brazil (US$98.6 million).

412. The following is an update on these facilities:

Status of the Lines of Credit Facilities

Facility	Purpose	Status
South Africa - ZAR575 million	• Industry revival	• The two Governments to negotiate implementation framework.
Angola - US$50 million	• Infrastructure development	• Government of Angola is working on the implementation framework.
India - US$100 million	• Health care delivery	• A feasibility study to ascertain intervention areas carried out. • GoZ submitted formal request.
Botswana - P500 million	• Financing productive sectors of the economy	• Government has fulfilled all conditions precedent. • Government of Botswana yet to declare effectiveness of the Facility.
Brazil – US$98.6 million	• Food security	• The two Governments are finalising framework of cooperation.

New Facilities

US$400 Million Trade Finance Business Plan (TFP)

413. I would like to applaud the African Development Bank Group for approving a US$400 million Trade Finance Business Plan (TFP) on 20 February 2013.

414. The prime objective of the plan is to provide the much needed Trade Finance for RMCs.

415. The TFP will primarily but not exclusively target smaller banks in regional Low Income Countries, including Fragile States that support a network of small farmers and traders.

416. The TFP is designed to offer three main products namely; Risk Participation Agreements (RPAs); Trade Finance Lines of Credit; and Commodity Finance Facilities. The initial focus of the TFP is on deploying Risk Participation Agreements (RPA) with the main commercial banks engaged in supporting documentary trade with African banks.

417. In line with the TFP, the Bank Group Board has since approved the first US$200 million Risk Participation Agreement (RPA) between the

Bank Group and Standard Chartered Bank, of which Zimbabwe has been allocated US$40 million. The RPA will be implemented over 3 years and will support transactions with a maximum tenor of 2 years.

418. The AfDB has approved seven (7) Zimbabwean banking institutions to participate as Issuing Banks under the country's US$40 million RPA, with stipulated ceilings as follows:

Allocations to Zimbabwe Issuing Banks

Issuing Bank	Limit (US$ m)
BancABC	3
CABS	10
CBZ Bank Limited	10
FBC Bank Limited	3
Kingdom Bank Limited	1
MBCA Bank Limited	3
Stanbic Bank Zimbabwe Limited	10
Total	40

419. Zimbabwean registered companies are also set to benefit from a US$50 million allocation to Afreximbank under the same RPA earmarked for the whole continent.

420. The Standard Chartered Bank will serve as executing counterparty and Standard Chartered Bank South Africa will be the booking location for the Zimbabwe Issuing Banks.

Other Facilities

421. In my 2013 National Budget, I indicated that Government was going to pursue US$2 billion worth of investments from China.

422. I wish to advise that during the period under review, Government has managed to operationalise US$381.9 million worth of loans. These relate to projects for Development of Victoria Falls Airport (US$150 million), Supply of Medical Equipment and Supplies (US$89.9 million) and Development and Rehabilitation of Water & Sewer Systems for City of Harare (US$142 million).

423. A disbursement of US$45 million has since been made towards the Victoria Falls International Airport, which will enable Government to meet its desired implementation target ahead of the United Nations World Tourism Organisation (UNWTO) General Assembly slated for August 2013.

424. Government is also at an advanced stage on negotiations for financing of the Kariba South Hydro-power Station Extension Project with China Eximbank. Evaluation of the project by the Bank is almost complete.

425. In addition, Government has resuscitated discussions with China Development Bank for a US$30 million line of credit to Infrastructure

Development Bank of Zimbabwe (IDBZ) and an equal amount to Agribank.

426. Furthermore, Government recently concluded negotiations with the Government of India on a concessional line of credit worth US$28.6 million for the Upgrading of Deka Pumping Station and River Water Intake System Project. The project seeks to boost water supplies to Hwange Thermal Power Station.

427. In this regard, I would like to thank all development partners for extending lines of credit which will go a long way in improving liquidity in the economy, industry revival and infrastructure rehabilitation and development.

Domestic and External Loans Obligations

External Payments

428. During the period January-May 2013, Government made external payments amounting to US$108.1 million against a target of US$107.3 million.

429. The above actual external payments, which are in excess of the target payments by US$0.9 million, are a consequence of penalty

interest charges due to late payments, as well as exchange rate fluctuations.

430. Below are the payments made up to May 2013:

External and Domestic Payments (US$ '000's)

	2012		2013		
	Planned	Actual	Planned Jan-Dec	Planned Jan-May	Actual Jan-May
External principal payments	23,302	23,302	59,377	22,108	22,114
External interest payments	27,429	27,556	17,970	8,278	9,220
Sub total	**50,731**	**50,858**	**77,347**	**30,386**	**31,334**
Domestic principal payments	5,000	5,000	143,860	70,564	70,564
Domestic interest payments	2,894	2,894	6,800	1,222	1,222
Sub total	**7,894**	**7,894**	**150,660**	**71,786**	**71,786**
Subscriptions to international organisations	2,322	-	1,875	70	-
Shareholding to international organisations	9,250	4,786	15,985	5,012	5,012
Grand Total	**70,197**	**63,538**	**245,867**	**107,254**	**108,132**

VII. CONCLUSION

431. The Ministry of Finance will continue to closely monitor developments in the economy with the normal issuance of Treasury Monthly State of the Economy updates.

T. Biti; MP

MINISTER OF FINANCE

July 2013

Annex 1

Total External Debt: Public and Publicly Guaranteed Debt & Private Sector End 2012 (US$ m)

	DOD Including Total Arrears & Penalty Interest	Debt Outstanding and Disbursed (DOD)	Total Arrears Stock	Principal Arrears	Interest Arrears	Fees Arrears	Penalty Interest
o/w public and publicly guaranteed	**6 045**	**1 358**	**4 687**	**2 629**	**1 136**	**9**	**913**
Bilateral Creditors	**3 518**	**837**	**2 681**	**1 435**	**434**	**4**	**808**
Paris Club	**2 938**	**366**	**2 572**	**1 344**	**426**	**4**	**798**
Austria	33	2	30	14	4	-	12
Belgium	71	1	70	27	2	0	41
Finland	106	6	101	78	7	-	16
France	441	46	395	187	41	-	167
Germany	748	128	656	363	163	1	130
Italy	152	19	133	93	11	-	29
Japan	397	92	304	149	68	0	87
Netherlands	99	2	97	63	17	-	18
Norway	68	-	68	26	1	-	41
Spain	57	8	48	26	6	0	17
Sweden	78	-	78	53	2	-	23
Switzerland	44	-	44	20	3	-	21
U.K	369	2	367	168	41	-	158
U.S.A	240	60	181	77	62	3	38
Non-Paris Club	**580**	**471**	**109**	**91**	**9**	**-**	**9**
China	553	471	83	78	5	-	-
Kuwait	7	-	7	5	2	-	-
South Africa	19	-	19	8	2	-	9
Multilateral Creditors	**2 527**	**521**	**2 006**	**1 194**	**702**	**5**	**106**
AfDB	572	5	567	296	267	4	-
ADF	60	45	14	10	3	1	-
AfreximBank	32	15	18	17	1	0	0
BADEA	21	-	21	14	8	0	-
IBRD	790	15	775	447	328	-	-
IDA	561	380	181	133	48	0	-
IFAD	32	10	22	16	7	-	-
IMF	125	-	125	102	11	-	12
EIB	302	34	268	152	28	-	88
NDF	22	17	5	4	0	0	0
PTA	10	-	10	4	1	-	5