Investing in People for Social & Economic Justice

'Discord in monetary and fiscal policies: A thorn in the flesh for ordinary citizen.'

Introduction

Zimbabwean citizens celebrated the 2019 National Budget Statement which reviewed the tax free threshold from US$300 to US$350 in order to cushion low taxpayers against rising prices of basic goods. The gains were however short-lived when the government announced the Monetary Policy which officially devalued the RTGS dollar through a floating exchange rate between the RTGS dollar and the United States dollar. The government did not however harmonise the fiscal and monetary policies in order to address the market distortions that came with the monetary policy considering that the 2019 National Budget had been presented at a time when the USD and Bond Notes were at parity. The fact that the devaluation of the RTGS dollar was aimed at addressing the exchange rate challenges that arose from the black market rates and multi-tier pricing, its net effect on the economy is devastating to both economic agents and consumers, people with fixed incomes and essentially all businesses that rely on imports.

Implications of Devaluation to Ordinary Citizens

Zimbabwe being a net importer of fuel, food and raw materials, all these import items became more expensive. Zimbabweans are caught in between a rock and hard surface as they entirely rely on imports, implying an increase in cost push inflation. It is very unfortunate that the final consumer becomes the greatest loser in this economic matrix. With worsening macroeconomic performance, the rise in inflation is not matched by a corresponding increase in aggregate demand.

It is very unfortunate that devaluation was not matched by an increase in real wages and salaries, worse still; there was no deliberate decision to cushion workers against devaluation and the corresponding rise in inflation. People's disposable incomes were eroded excessively by the failure to respectively review the minimum tax threshold. Using the RBZ bank rate of US$/RTGS at US$1: RTGS 3.2 as of 25 April 2019, monthly incomes of US$110 or the RTGs equivalent are now being subjected to taxation. This defeats the purpose of reviewing the free tax threshold from US$300 to US$350 in the 2019 fiscal policy. This is incomparable to the monthly South Africa minimum tax threshold of US$450. Fundamentally, the discord between the monetary and fiscal policies signifies policy inconsistency and incoherency whose implications on the ordinary citizens undermine the very essence of having a government that saves the interest of its citizens.

Recommendations

The pain associated with the "Austerity for Prosperity" seems to be excessively unbearable beyond what the Minister of Finance and Economic Development envisaged. If no relief is sought immediately, the pain will persist into the medium and long term putting, the country in a worse off position. In this regard, ZIMCODD recommends the following:

- The government should expeditiously review the minimum tax threshold in line with the monetary developments brought by the monetary policy of 2019. Basically, the initial RTGS tax free threshold should be set by multiplying the US$ amount by the existing exchange rate. The policy review should be issued through a government gazette which provides for tax refunds to individuals whose incomes were taxed from the time the monetary policy took effect.

- Considering that the Minister of Finance and Economic Development presides over both the monetary and fiscal policies, an Act of Parliament should be enacted to make it mandatory the synchronisation of monetary and fiscal policies to safeguard the interests of Zimbabweans and the economy. This will put an end to the prevailing macroeconomic distortions fuelled by the policy inconsistencies and incoherency.

ZIMCODD Contact Details

5 Orkney Road, Eastlea, Harare

Email: zimcodd@zimcodd.co.zw

Tel/Fax: +263-242-776830

Website: www.zimcodd.org

Facebook: Zimbabwe Coalition on Debt and Development

Facebook Account: ZimcoddZimcodd

Twitter @ zimcodd1