



# THE Weekend Reader

"Your Weekly Read on Debt, Development & Social & Economic Justice"

## HIGHLIGHTS FROM THE 2021 MID-TERM BUDGET & ECONOMIC REVIEW

Yesterday on the 29th of June 2021, the Minister of Finance Hon. Prof. Mthuli Ncube presented the 2021 mid-term Budget and Economic Review to the Parliament of Zimbabwe. This reader presents some topline issues from the presentation as well as preliminary analysis

### **Alarming Debt and failure to honor repayments**

In his mid-term Budget Review, Finance Minister Prof. Mthuli Ncube highlighted that total Public and Publicly Guaranteed External debt including RBZ external guarantees as at 31 December 2020 amounted to US\$10.5 billion which is about 71.2% of GDP. Of that amount, arrears alone make up over US\$6.5 billion (77%) of total external debt. With IMF recommending that African debts be maintained at below 60% of the GDP, Zimbabwe's debt has become unsustainable and affects access to basic public services such as education, health, water, and sanitation.

Many developing countries like Zimbabwe rely on low interest, concessional loans provided by international financial institutions such as the World Bank and the International Monetary Fund (IMF) as they lack deep financial markets to support local industry. This is one of the reasons interest rates are relatively high in developing countries compared to their rich counterparts. However, when the government defaulted on its external obligations after years of economic mismanagement, these cheap lines of credit were cut off exacerbating the economic decline. Despite defaulting on the principal loan (the money originally loaned on which basis interest is calculated) the government could not service its debts (paying interest). These are the amounts that are accumulating each passing year plunging the nation into further debt distress.

The Minister pointed that the government will start paying token payments to its creditors to get concessional financing from its bilateral and multilateral partners. He indicated that the government will also begin payments to the Paris Club creditors in the second half of the year. However, it was not indicated as to how the government will raise the funds to finance these transactions given the current economic status. Citizens should demand to know the contraction, extension, refinancing, and/ or repayment of the public debt.

## GDP projections revised

The Treasury chief has revised upwards 2021 GDP projections, from an initial 7.4% to 7.8% powered mainly by massive growth in agriculture and mining. This comes after the IMF has revised its Zimbabwe growth projections in June to 6% from 3.1% projected in April. The World Bank had also revised its projections from 2.9% to 3.9%. These revisions were made on assumption that COVID-19 cases will begin to fall as vaccinations peak leading to global economic re-opening. Be that as it may, there is still concern on whether the latest projections are not too ambitious.

Although there is an expectation for economy recovery, this should be by a conservative margin for this year. Many developing countries like Zimbabwe are commodity-dependent nations and the global re-opening is exerting excessive demand for industrial metals like the Platinum Group Metals (PGMs) and copper. Also, the shift by advanced nations towards the green economy is putting demand pressure on clean energy-linked metals like nickel which is used in the manufacturing of electrical vehicles (EVs). More so, the reports that President Biden has reached a deal with Senators for an infrastructure bill worth US\$1.2 trillion to be spent over 8 years is good news for commodity-dependent nations. If passed and signed into law, it will likely fuel a commodity price rally.

Further, the country has enjoyed a bumper harvest driven by a combination of factors including among others, input support for farmers, normal to above normal rainfall received and conservation agriculture practices. The Ministry of Agriculture estimates that the country will harvest 2.7 million tonnes of staple maize against an average national requirement of circa 2.2m tonnes. The bumper harvest is also expected to subdue food prices as supply in the open markets continues to increase (moisture content improves). Last but not least, domestic electricity production has also significantly improved for this year attributable to high dam levels. Electricity is a key production enabler and its scarcity is an albatross to industrial production.

Although there are these indications for positive GDP trends, it is crucial to remain conservative because the assumption that the effects of COVID-19 will quickly wane is proving to be wrong. Though recently millions of vaccines have been acquired, the rate of vaccination remains very low. There are various reports of corruption in the procurement as well as distribution of COVID-19 resources. To date, less than 2 million individuals have received at least 1 dose while the government is targeting to vaccinate about 60% of the population by December 2021 to attain herd immunity. Currently, the nation is in Level 4 lockdown with very high restrictions, business operating hours were reduced as curfew hours were expanded. All these developments are therefore weighing down GDP recovery.

### **Remittances on the rise**

The mid-term budget and economic review noted that in the first 6 months of 2021, cumulative diaspora remittances have mounted 159% settling at US\$ 746.9 million relative to US\$ 288.7 million received in the same period in 2020. Record diaspora remittances were received in 2020 despite earlier projections of major decline due to the impact of the COVID-19 pandemic. For the full fiscal year, over US\$ 1 billion was received from diasporas making it one of the major sources of foreign currency in Zimbabwe. With half-year comparisons showing 2021 year ahead of 2020, simplified projections point to more remittances in FY21 than FY20.

### **Budget Supplement Missing**

Without a supplementary budget, the presented review has left a lot to be desired as it failed to capture many people's expectations. Firstly, no further light was given about the procurement of vaccines. The minister highlighted that government has budgeted US\$ 100 million for vaccines and to date about US\$ 93.2 million has been utilized. With the country still far from its primary goal of attaining herd immunity, the balance (US\$ 6.8 million) for vaccine purchases seems inadequate in covering the need. The review also failed to report how the government is financing the purchase of grains from farmers especially now with the large harvest. Although some of these purchases are said to be covered through re-allocation of budget votes from areas of less economic importance, the budget review is not sufficient without a supplement. An example of missed opportunities to have been catered for in the supplementary budget is the preparation for the reopening of schools. The Government is pushing for schools re-opening but with zero spending on PPEs for teachers and masks for underprivileged children mostly in rural areas.