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ZIMBABWE COALITION ON DEBT & DEVELOPMENT

An Analysis of the 2021 Mid-Term Budget and Economic Review

Prepared for
Zimbabwe Coalition on Debt & Development
August 2021

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01. INTRODUCTION

Fiscal instruments such as the National Budget and the Mid-Term Budget and Economic Review (MTBER) are meant to introduce new fiscal measures, address weak fiscal positions assumed in the past or sharpen fiscal instruments for joint economic and social benefit. From the perspective of social and economic justice, fiscal instruments are for the people and are rightfully designed to tackle the needs and challenges faced by the society.

For that reason, the period leading to the presentation of either a National Budget or the MTBER is puffed up with expectations related to policy changes that smoothen and incentivize the business environment, enhance the welfare of citizens and boost domestic resource mobilization. Contrary to the norm, the 2021 MTBER, by failing to provide a supplementary budget and ancillary fiscal measures lived short of its expectations as it failed to captivate the masses, industry, workers and investors alike.

The 2021 MTBER came at a time when both the economic and social spaces were reeling from the implications of the COVID-19 pandemic as well as other structural challenges discounting the growth potential of the economy. Accordingly, the soundness and inadequacies of the MTBER are presented hereunder.

02. GROWTH

The Treasury Chief revised the projected GDP growth for 2021 from 7.4% to 7.8% based on firming international mineral prices, resumption of the domestic economy from COVID-19, recovery of the domestic aggregate demand, stability of the macro-economy (exchange rate and inflation), and domestication of value chains, re-opening of the global economy and tourism, a bumper harvest, improvement in revenue collection, materialization of mining projects and the control of wasteful expenditure. The estimated GDP growth seems ambitious and overstated as it not only surpasses the estimates of the World Bank, IMF, and the AfDB (Figure 1) – but disregards the reality of critical growth factors (debated in this section) that point to a moderated economic performance

2.1 Commodity price rally

As of April 2021, the World Bank estimated a 30% metal price increase and a 14% agricultural price surge. However, Zimbabwe is still to invest in productive value chains related to mining and agriculture thereby limiting not only the potential gains from the same sectors, but the sustainability of GDP growth. A reversal of metal prices gains and a poor agricultural season will dampen growth. Key infrastructure gaps such as power, water and road networks limit meaningful investment in mineral beneficiation and agro-processing. Policy inconsistencies, country risk and uncertainties around the macro-economy limit green investment in value addition.

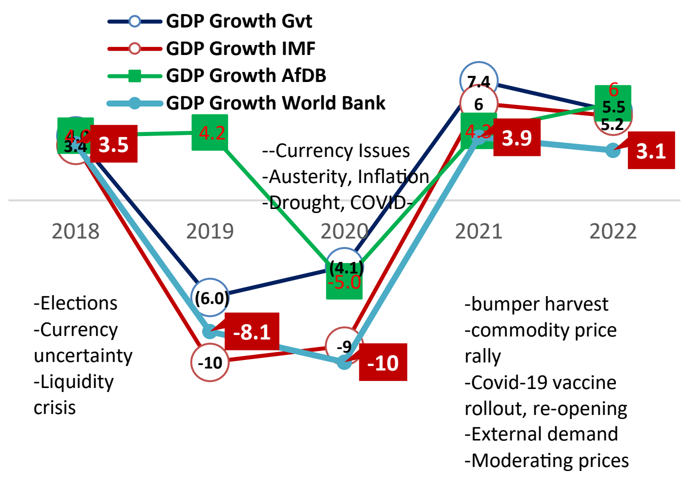

Figure 1: Zimbabwe GDP Growth Estimates

2.2 Recovery of aggregate demand

The assumption that domestic aggregate demand is to recover in the second half of 2021 is illogical as disposable income remains subdued given meager salaries below the poverty datum line for the majority of workers in the public and private sector. The Total Consumption Poverty Line (TCPL) for July 2021 stood at Z$6 126.41 per person (ZIMSTAT July 2021) thus Z$36 758.46 is required for a family of 6, an amount most workers do not earn per month. The MTBER does not make a provision for salary increases; neither does it review upwards the tax-free threshold implying that aggregate demand remains downcast.

2.3 Resumption of the domestic and global economy

The role out of COVID-19 vaccination has given hope of the resumption of the global and local economy. However, the slow jab intake due to high vaccine hesitancy, skepticism, and poor logistics on government's part threatens the recovery of the economy. Less than 2 million people are fully vaccinated against a target of 60% of the population (to attain herd immunity) by December 2021. It is highly likely that the effects of COVID-19 will not quickly wane as assumed and the economy might remain constrained longer. Currently, the nation is in Level 4 lockdown with very high restrictions, business operating hours were reduced as curfew hours were expanded. All this is weighing down GDP recovery. More resources are required to acquire beds and ventilators as COVID-19 related hospitalizations are on the increase.

2.4 Control of wasteful expenditure

The Government has acquired vehicles for Chiefs and POLAD Principals as well as constructing a statue in the midst of a pandemic – a sign of misplaced priorities. There are also reports of corruption in the procurement and distribution of COVID-19 resources. The economy also continues to bleed from the smuggling of minerals with the government not taking any action against such losses.

It is apparent that the 'control of wasteful expenditure' implies nothing other than the allocation of state resources for political grandeur at the expense of investing in GDP growth. Currently, the government is financing the purchase of grains from farmers against a 2021 budget that did not provide for such a bumper harvest. The government is likely to spend ZW$46 billion on maize and traditional grains alone without factoring in other grains like soybeans and wheat. This spending, though necessary is un-provisioned fiscally and the money press might be running to finance the same. This has the potential of disrupting government books with spill-overs to other macroeconomic fundamentals such as exchange rate and inflation. Ideally, announcing a supplementary budget for critical provisions could sanitize the spending pattern of the government.

2.5 Materialization of mining projects

Whereas positive externalities from the mining sector are likely to accrue to the economy through backward and forward industrial integration, the generation of tax revenue and foreign currency; the industry faces policy discord and colossal smuggling of minerals. A Zimbabwean man was caught at a South African airport with gold worth ZAR11million. The 40% export earnings surrender requirements explain the understatement of mining returns as well as smuggling.

Round diamonds worth an estimated US$140 million went missing from the repositories of the Minerals Marketing Corporation of Zimbabwe. Adding the leakages of the three publicized cases in the past 12 months (the Rushwaya case, the O.R. Tambo case and the disappearance of diamonds from MMCZ) gives US$2.5 million – an indication that even more resources are being lost[1]. All the same, the arbitrary granting of tax holidays to mining firms under unclear conditions limits the revenue that can be amassed from mining sector.

A change in the framework of mining tax holidays was supposed to be part of the MTBER so that tax holidays are based on mineral ore tonnage not the number of years. This comes into light given the arbitrary granting of a 5-year tax holiday to Great Dyke Investments in February of 2021. Also, the increase in mineral smuggling and understating of mining returns is a knock-on effect of the 40% export earnings surrender requirement which is fleecing exporters. Accordingly, the MTBER was supposed to deal not only with transparency issues[2] but correct the policy framework and proceed to seal mineral leakages if the full gains of mining are to materialize, same as the achievement of the US$12 billion mining industry by 2023.

2.6 Domestication of value chains

The NDS 1 identifies agro-processing, mineral beneficiation, fertilizer, bus/truck assembling and plastic waste value as key productive value chains. However, investment in these value chains is marred by power outages, water challenges, infrastructure challenges, lack of foreign currency and incentives for local firms and FDI. The Minister did not address these critical policy issues, thus the contribution of domestic value chains in GDP growth is inhibited whilst the domestication of the same remains a dream.

1. In 2019, the Minister of Finance and Economic Development noted that Zimbabwe may have lost between 30 tonnes and 34 tonnes of gold to smuggling in the neighbouring South Africa. Voice Zimbabwe (2021) established that, Zimbabwe lost approximately US$ 1.5 billion in gold smuggling in 2020 against US$ 800 million official Fidelity exports.
2. The mining cadastre system is still to be operational

3. MACRO-ECONOMIC STABILITY

The essence of macro-economic stability is not about painting a good picture of the performance of fundamentals – but the welfare benefits of the purported stability to the ordinary citizens. The Minister's presentation emphasized on the stability of the exchange rate same as the declining trend of inflation. This write-up presents an account of the detailed misfiring of this view.

3.1 Inflation

Despite inflation growth moderating since the turn of 2HY2020, no welfare benefits (affordability of goods and services) accrued out of the stability. The concern has been the popularization of the receding inflation trend but no attention has ever been invested in understanding the effects of inflation on the livelihoods of citizens. Whereas inflation has been receding, wage growth has remained suppressed as government takes long to adjust salaries – leading to a protracted period of wage/salary value erosion and the emergence of the 'working poor' social class.

On a technical note, a receding inflation trend does not necessarily undo the effects of inflation on the value of the local currency – it only implies that the rate of erosion of the purchasing power of the currency is going down. The 'tight' money supply rhetoric peddled by the government contradicts the 400% money supply growth estimated by experts – hence the excessive liquidity (ZW$) in the economy. Government has been printing money to finance the acquisition of the USD in the auction market as well as supporting farmers, procuring vaccines, and the recent 50% salary hike. Economists believe that for stability in the economy, money growth should be proportionate to output growth to avert a scenario where there is too much money chasing too few goods.

The alternative rates oscillate between ZW$140-ZW$150 to a US dollar giving parallel premiums of at least 60% against the allowable 20% parallel market premium threshold. This parallel trend is worrisome for an economy that is highly informal thus benchmarking prices to these alternative rates. As such inflationary pressures remain elevated in the second half of 2021.

High prices reduce consumer spending power thereby subduing aggregate demand (GDP growth). Also, the MTBER failed to consider the duality of the economy in the measurement of inflation and the fact that the majority get served in the informal sector. The MTBER did not do anything to insulate households to the increasing costs of essentials, utility bills, rates and taxes against weak wage growth.

3.2 Exchange rates.

The MTBER's position of not provisioning changes on the auction market is a cause of concern as the Minister prophesied ignorance of the weaknesses associated with the foreign exchange auction market. The stability of the exchange rate is a choreographed stunt as the auction market is not an open market. The RBZ's hand manages the exchange rate to the disadvantage of exporters who face compulsory export earnings' surrender requirement is 40%.

The same resources are channeled to subsidize importers – thereby defining an economic injustice of un-imaginable expanse. The operation of the auction market has perpetuated price distortions given the multiple pricing regime obtaining in the market. The corruptible auction market has not only been inefficient in allocating foreign currency but has also sustained the parallel market. All economic agents not served by the auction market fulfill their needs in the parallel market, same as institutions on the priority list whose foreign currency needs are partially satisfied.

About USD200 million worth of bids are still to be paid implying a weak financing side of the auction market. The informal economy remains outside the auction market whilst it is the one serving the majority of the people. The MTBER erred in not making key changes to the auction market with regards to its full independence and effective pursuance of the shared national economic objectives.

4. SOCIAL SPENDING AND REMITTANCES

The MTBER came at a time COVID-19 hospitalizations are on the increase requiring the government to further equip the health sector with ventilators, oxygen supplements and medication. The acquisition of COVID-19 inoculants also requires funding as US$93.2 million has been utilized out of the US$100 million initial war chest. Basic ambulance service across the country is deplorable at 134 vehicles[3] – making it almost impossible to serve the increasing COVID-19 emergency cases.

Concurrently, the tally of the vulnerable has increased given the job and income losses from the closure or down-sizing of firms and the decimation of the informal SME sector owing to COVID-19 lockdowns. The World Bank estimates that about 50% Zimbabweans are in extreme poverty anchored by an increasing number of the urban poor[4].

As from 1 January 2021, government reviewed cash transfers and a family of one is now receiving ZWL$ 1000, a family of 2 gets ZWL$ 1500 and a family of 4 receives ZWL$ 2500. Despite this review, the transfer is insufficient to carter for the needs of the families. The maximum amount paid (ZWL 2500) is equivalent to USD $29 (observing the auction market rate) and when shared amongst 4 family members, each gets USD7.35 per month – an amount too meagre to breach the extreme poverty benchmark of US$1.90 per person per day benchmark.

Whereas the cash transfer amounts are less than the food poverty line for an individual pegged at ZWL4 379 in July of 2021[5] , government takes long to redress the erosion of cash transfer value. In the education sector, the Basic Education Assistance Module (BEAM) supported 415 000 children against 4.6 million children in need of both formal and informal education. These statistics are bound to worsen in 2021 given the increased incapacitation of many families due to COVID-19 induced job and income losses.

A supplementary was defintely going to undo government's push for schools to re-open but with zero spending on PPEs for teachers and masks for underprivileged children. Also, inequality in education is worsening as few families can afford alternative learning means (on-line learning) given the intermittent ban on physical classes. Government thus has the mandate to finance the paradigm shift in the learning environment. Other facets of the social space that are in need include the support of the elderly and people living with disability, food poverty/insecurity and child protection.

The MTBER erred in failing to provide a

3. www.wolrdometers.info/wolrd-population/Zimbabwe-population/
4. The World Bank (2021). Zimbabwe Economic Update. Overcoming Economic Challenges, Natural Disasters and the Pandemic. Social and Economic Impacts, Washington, DC: The World Bank Group.
5. ZIMSTAT July 2021.

supplementary budget to address these ills. The government's failure to supplement social protection services under the guise of 'economic stability' and fiscal consolidation attests to an elitist government. The elitist approach entrenches social and economic injustices by further alienating the vulnerable and marginalized members of the community. The executive continues to enjoy affluence and perks as ordinary citizens languish in poverty.

Remittances, which are yielding well in 2021 compared to 2020[6] are the source of a reprieve for many Zimbabweans whose needs are supported by relatives who are abroad. Yes, remittances can be a good proxy to measure economic decay with a surging figure indicating strengthening economic hardship. Remittances are critical in the fight against poverty and inequality in society as they are used to pay for essential services like medication, food, school fees and rentals which are paid in foreign currency.

Effectively, the provision of essential services has become the resolve of individuals as government pretends to care but delivers in-equitably. Seemingly the government is engrossed in making an impression based on a balanced budget/surplus at the expense of the welfare of citizens. Addressing pressing developmental needs calls for the relaxation of strict fiscal controls and the adoption of an accommodative macroeconomic framework associated with the incurring of deliberate budget deficits that are meant to support job-creating and poverty reducing investments.

6. Remittances from January-June 2021 stands at US$746.90 million.

5. CONCLUSION

Whereas the prime pre-occupation of a government is to protect its citizens through the provision of essential, the 2021 MTBER affirmed beyond doubt that the government is divorced from the obtaining realities of the economic and social spaces. The 2021 MTBER is a continuance of an elitist governance approach whose priorities are around political grandeur backed by falsified economic stability that does not translate into welfare benefits for citizens.

The growing vulnerability and extreme poverty, the need to fund COVID-19 vaccine acquisition and address health infrastructure gaps, the diminishing education standards, the economic injustices linked to the operation of the auction market, the price distortions and failure to tame the flourishing forex market, the chronic resource leakages (smuggling of minerals), wasteful expenditure, as well as the need to fund and support productive value chains called for a supplementary budget. It is imperative for government to consider ways of grounding the economy in social and economic justice for the betterment of the society at large.

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