
STATEMENT ON THE 2022 MID-TERM BUDGET AND ECONOMIC REVIEW

On the 28th of July 2022, the Minister of Finance and Economic Development, Prof. Mthuli Ncube presented the 2022 Mid-term Budget and Economic Review. The Zimbabwe Coalition on Debt and Development notes the review which comes at a time when the country is under siege of severe Zimbabwe dollar (ZWL) exchange rate depreciation against the US dollar and rampant price inflation which is eroding real incomes, reducing consumer demand, widening income inequalities and imbedding citizens into extreme poverty. Below is our analysis of key highlights of the 2022 Mid-term Budget Review especially as they relate to issues key to the livelihoods of citizens;

A Supplementary Budget

The year 2022 marks the end of Prof. Mthuli's budget surplus hoax as he has tabled a Supplementary Budget for the first time since his instalment as Treasury chief in September 2018. The Treasury is requesting additional spending of ZWL929.3 billion on top of the initial 2022 approved budget of ZWL968.3 billion putting spending projections for the Jan-Dec 2022 fiscal year at ZWL1.9 trillion. A supplementary budget was inevitable as ravaging ZWL depreciation had significantly eroded the real value of the 2022 approved budget from US\$8.4 billion (US\$1: 115.42) in January to US\$2.6 billion (US\$1: ZWL370.96) as of the end of June 2022. It is also worrisome to note that despite a tightening economy that has plunged 40% of the population into extreme poverty, a paltry 3.4% of the ZWL929.3 billion additional spending is earmarked for social welfare. It is our position that without addressing the root causes of current currency volatility, the announced supplementary budget is inadequate to keep citizens out of poverty.

Insufficient Tax Relief Measures

The Treasury has increased Pay As You Earn (PAYE) tax-free threshold - an amount of money that the government has declared tax-free- from ZWL300 000 to ZWL600 000 per annum with effect from 1 August 2022. While commendable, this measure is insufficient in addressing livelihood concerns without additional measures such as zero-rating VAT and scrapping/reducing the 2% tax. Further, the suspension of duty on basic goods by the government in May 2022 is largely benefiting those with access to foreign currency as importers are charging in forex. It is the public's view that tax relief measures should significantly lessen the burden on the poor and vulnerable more than the elite.

Revenue Enhancing Measures

Treasury admitted that the mining sector is not paying its fair share in taxes. For instance, the sector contributed about 1.2% of Gross Domestic Product (GDP) in direct taxes to the fiscus in 2021, a significant contrast to countries in sub-Saharan Africa (SSA) which averaged 2% during the same period. This is shocking and discouraging given the earnings being made by miners who are benefiting from rising global mineral commodities since 2021. This scenario exists only because the country's PFM systems are weak as public officials are notoriously known for plundering and diverting public resources for their private gain (refer to yearly audit reports prepared for the Parliament by the Office of the Auditor-General).

Public debt

The latest statistics released show that as of the end of June 2022, Zimbabwe's public and publicly guaranteed debt stood at ZWL1.3 trillion and US\$13.2 billion comprised of domestic and external debt, respectively. As ZIMCODD, we are particularly concerned by this growing burden which has landed us in debt distress. Government has introduced a raft of measures to correct this burden but without the political will to implement these reforms, the proposed debt forum will be a platform to entrench propaganda and waste public funds. The fundamentals such as a debt audit, legitimate expenditure and borrowing need to be in place!

Budget Transparency

ZIMCODD commends the Government of Zimbabwe for the transition toward greater fiscal transparency as shown by the latest International Budget Partnership ranking. Zimbabwe is now ranked third in Africa and 41/120 countries in terms of budget transparency. We have seen the government publicizing more budget documents, producing a citizen version of the budget, and releasing the 2022 Budget Strategy Paper on time. While there are notable improvements in budget processes, there remain some areas for further improvement which include increased public awareness and participation in the budget-making process, decentralization of venues for these consultative meetings, and increased uptake of the public's wishes and aspirations, and wide dissemination of all relevant budget information. Furthermore, the Treasury should also improve on budget expenditure transparency and ensure that line ministries and local authorities strictly comply with audit findings by Supreme Audit Institutions.

Gold Coins

The government introduced gold coins in the market on the 25th of July 2022 mainly to address the runaway exchange rate and provide investors

with alternative tools for storing value. While this was a noble idea, it only works efficiently in an economy where there is total respect for basic economic principles. The gold coins are being sold in foreign currency such as the US dollar, South African rand, and British pound. They are also available in local currency at the prevailing interbank rate. However, by selling gold coins at an overvalued interbank rate (a gap of over 90% between official and parallel rates), the government has introduced a huge arbitrage avenue that only enables the rich and connected few to fatten their pockets at the expense of the poor majority. Zimbabwe, a net importer facing acute forex shortages amid rising global inflation and ballooning cost of borrowing cannot afford to sell the precious yellow metal at a discount.

Food Security

The minister missed an opportunity to adequately address key concerns around food security and climate change especially as we face the next farming season. This at a time when we are set to import maize when local producers are not being compensated well. The country then loses in forex which could be used to fairly compensate local producers.

Recommendations

The Mid-term budget and Economic Review failed to address the public's expectations of some bold measures to cushion vulnerable groups, strengthen the ZWL and subdue chronic price inflation. The below are proposed viable actions in improving the economic status of the country:

- Closing leakages caused by corruption and Illicit Financial Flows.
- A debt audit to rationalize the debt stock and make way for legitimate borrowing supported by parliamentary oversight. In the same vein, ceasing deals such as the Pomona scandal which has started to accrue yet it had no initial parliamentary approval.
- Reducing RBZ interference in foreign exchange markets by completely floating the ZWL exchange rate will help subdue burgeoning parallel market exchange premia.
- Liberalizing or doing away with the forex auction system that is promoting rent-seeking behaviors i.e. selling foreign currency below its true market value.
- Clamping excessive ZWL liquidity growth that is exerting massive depreciation pressures. The government should spend within its budgets by abolishing quasi-fiscal activities.