A Synopsis of the 2023 national budget

ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

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1 Introduction

On the 24th of November 2022, the Minister of Finance and Economic Development Mthuli Ncube announced the 2023 National budget. The 2023 National Budget has a total expenditure of ZWL 4.5 trillion which is US$ 5.6 billion using the parallel market rate of US$ 1: ZWL 800 and US$ 6.9 billion using the official ruling exchange rate of US$ 1: ZWL 646. This was against a national anticipation of a US$ 9 billion national budget if Zimbabwe is to attain an upper middle class economy by 2030. An evaluation of the 2023 National Budget shows deep public policy politics and how wholesome populistic policies have undermined optimum resource distribution proportionate to varying local and national challenges. The following synopsis highlights key propositions submitted by the Finance and Economic Development Minister to finance development plans in 2023. The analysis and critique here provided constitute ZIMCODD's independent and alternative opinion. It is our contribution to the public discourse in the budget making process as provided for in the Constitution of Zimbabwe.

2 Economic Outlook

- The massive Zimbabwe dollar (ZWL) depreciation experienced for most of 2022 is largely to blame for incessant inflationary pressures that eroded the real value of local currency earnings.
- This widened income inequality gaps and plunged the majority of the population into poverty with World Bank statistics showing that 40% are trapped in extreme poverty.[1] Between January-November 2022, the ZWL lost at least 75% of its value in the black market leading to an unbearable monthly inflation outturn averaging 12% per month.
- The economic problems were further worsened by erratic rainfall patterns received across the nation which resulted in poor staple maize harvest. Also, prolonged electricity load-shedding hours added misery by constraining household budgets and fueling production costs.
- The costs of electricity substitutes such as fuel and gas ballooned due to the impacts of the Russia-Ukraine war. The sanctions and countersanction between Russia and the West continue to constrain global trade and cooperation.
- Resultantly, global food and energy price inflation raged havoc thus subduing economic activity. In light of this, the Treasury downgraded its 2022 growth projection to 4% from the 4.6% stated in the 2022 Mid-term Fiscal Review.

1. https://www.africa-press.net/zimbabwe/all-news/40-of-zimbabweans-living-in-extreme-poverty-world-bank

- The authorities expect national output (GDP) growth to moderate further in 2023, registering a 3.8% growth which is, however, lower than a 5% target as per the publicly shared National Development Strategy 1 (NDS1) document. The realization of this growth is hinged on the assumptions of favorable rainfall patterns & global mineral prices, stable ZWL & power supply, tight monetary policy, and continued use of multi-currency. As such, authorities expect inflation to average 1-3% in 2023 owing to a sustainable fiscal deficit expected at 1.5% of GDP.
- However, after considering the risks to the economic outlook, the public concludes that the government will likely miss these targets: There is a possibility of a continuation of ZWL deterioration and skyrocketing prices in 2023 driven by excessive fiscal spending fuelled by upcoming general elections.
- Statistics show that the proposed ZWL$4.5 trillion 2023 budget is 137% higher than the projected ZWL1.9 trillion for 2022. Also, leakages of public funds from corruption and illicit transactions will probably escalate in 2023 as politicians seek re-election at all costs.
- Although the Hwange Thermal expansion project with an installed capacity of 600MW is progressing well, the public expects erratic electricity supply to persist in the first half of the year. The main threat is dwindling Kariba Dam levels and frequent breakdowns at existing aging thermal stations.

3 Budget Implementation Context

ZIMCODD welcomes the 2023 national budget which is being implemented in the 5th year of the second republic under the National Development Strategy 1 (NDS1) which seeks to make Zimbabwe an upper middle-income economy by 2030. Although, the budget strategy paper was released on time (June) and the consultative forums and public hearings were done the 2023 National Budget is still wanting with respect to embracing the voices and aspirations of citizens. The implementation of the budget has also been marred with controversy as there is always a negative correlation between budget allocations and expenditures. Interestingly, the correlation is usually in service delivery sectors, or other sectors that are considered minute in propelling the political interest of the incumbent. Thus, utilisation is always high in sectors that strengthen the iron grip of the incumbent on power. To this end, political expedience rather than national and social challenges determine public expenditure. In addition, Domestic Resource Mobilisation (DRM) which is at the core of revenue generation is often undermined by resource leakages across the entire public sector.

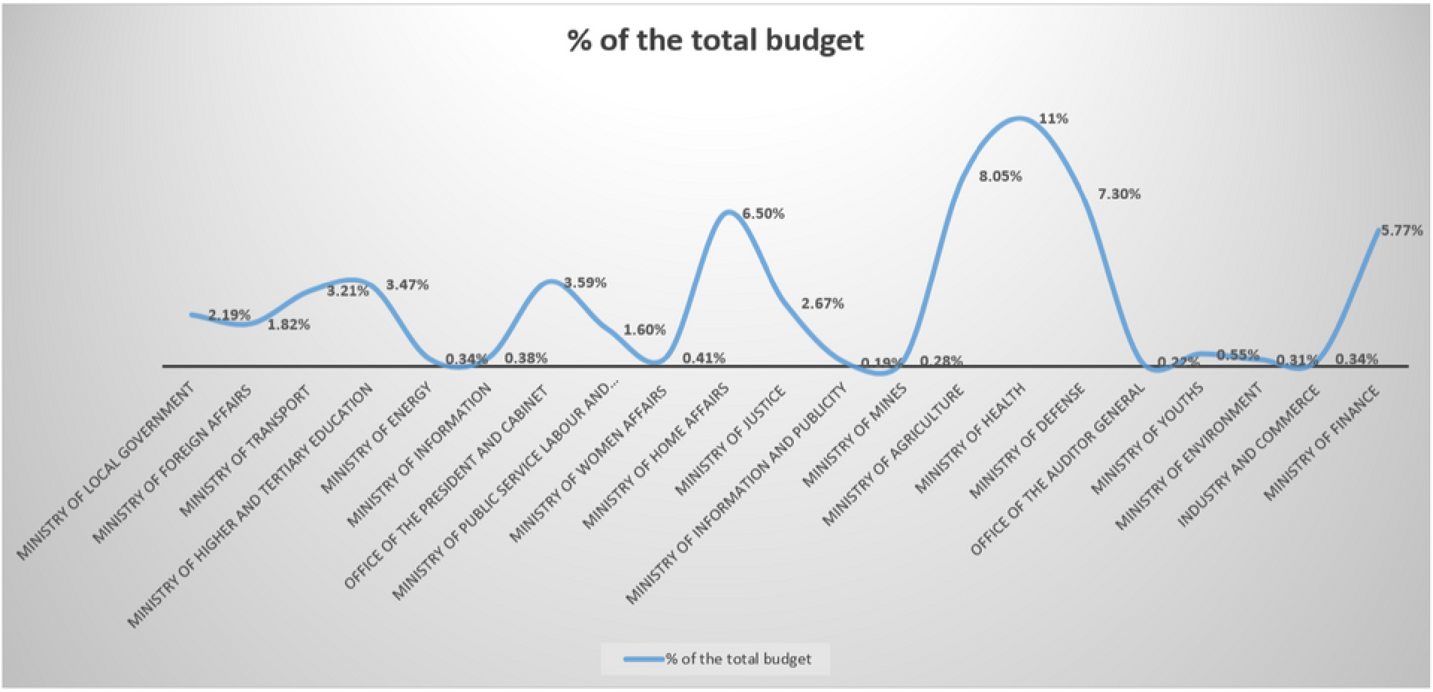
Resource leakages manifest in different dimensions such as tender-preneurship, economies of affection, tax avoidance and invasion as well as Illicit Financial Flows (IFFs) perpetuated by dismantled fiscal mining regimes. The abuse of public resources has also been rampant in the public sector with the Office of the Auditor General (OAG) flagging and unearthing corruption, embezzlement of funds and over expenditures which disregard value for money and the rudimentary principles of public finance management. Therefore, this stands to reason that as long as the budget implementation context has not been addressed, every budget that comes will keep encountering the same challenges. An upper middle-class economy by 2030 will remain a fairy-tale, a utopian idea whose manifestation time will not come. To redress this, there is need to ensure that detects of prudent public finance management outlined in Public Finance Management Act [Chapter 22:19] are followed religiously. The OAG office recommendations and findings should be acted upon while rigorous tender screening and processes should be practiced. At the same time, curbing IFFs should be government`s primary concern while harnessing the fiscal mining regimes.

4 2023 National Budget Allocations– Key Observations & Critique

- As usual the security sector (Defense) was allocated the biggest portion of the budget (7.3%) despite the fact that Zimbabwe is experiencing both negative and positive peace.
- It is rather worrying that; the number of war veterans continue to increase from 34, 000 in 1997 to 142,000 in 2022[2]. If , 142,000 war veterans have been given ZWL46 billion000 (US$ 57.5 million) which is 1% of the total budget while social protection has been given ZWL 50,4 billion (approx. US$ 63 million) which is 1.12% of the total budget.
- This is despite fact that Zimbabwe`s social protection is in a dire situation with 3.8 million rural people facing food starvation and 1.6 million urban starvations, 4.6 million -children living with Severe Acute Malnutrition and 4.8 million children in need of Basic Education Module Assistance (BEAM).
- Realities of increasing tuition fees related school dropouts, household food shortages and malnutrition, high birth mortalities, under-resourced health institutions and other social amenities points to a conclusion that the 2023 national budget again does not prioritize the plight of marginalised and vulnerable citizens. The budget missed international benchmarks and commitments.
- The propensity to spend beyond available resources and acquisition of public debt remarkably remain an albatross in government development planning model. Ambitious non-productive borrowing will sink Zimbabwe

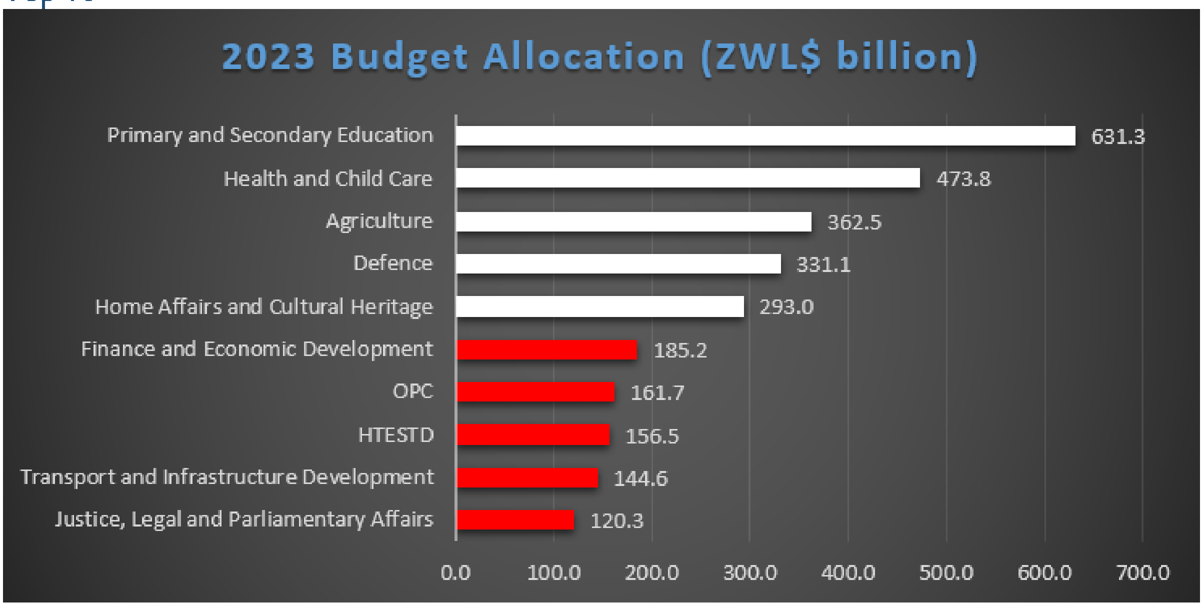
2. https://www.zimlive.com/2022/05/21/zimbabwe-to-compensate-160000-more-war-veterans-ex-detainees/

into further debt distress and stands in the way of recently promulgated arrears and debt clearance strategy supported by African Development Bank.

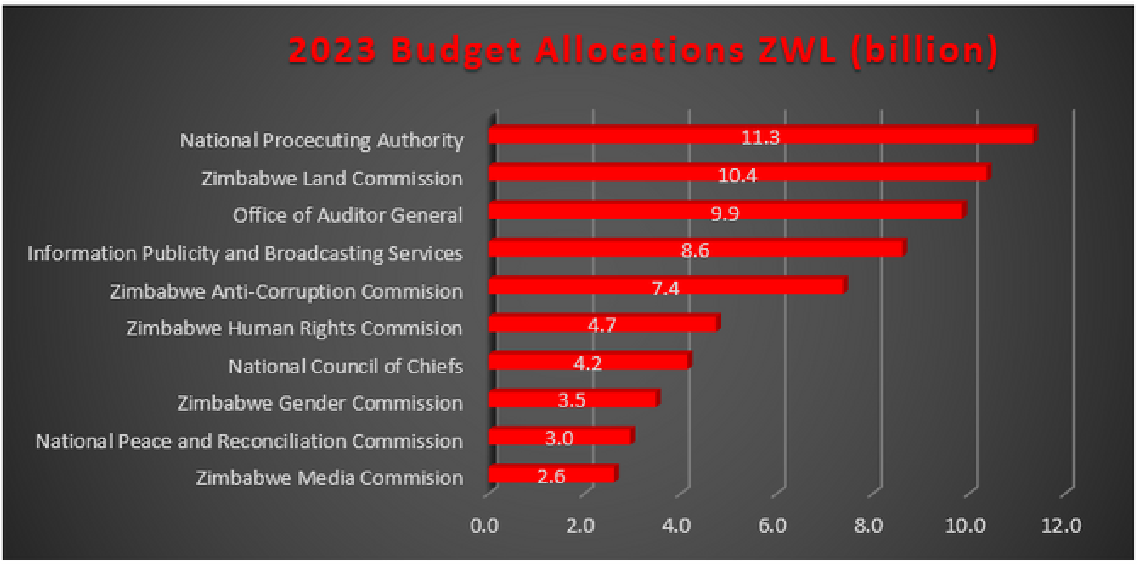


Source: *Compiled By ZIMCODD From The 2023 National Budget Statement*

2023 Budget Allocations
Top 10

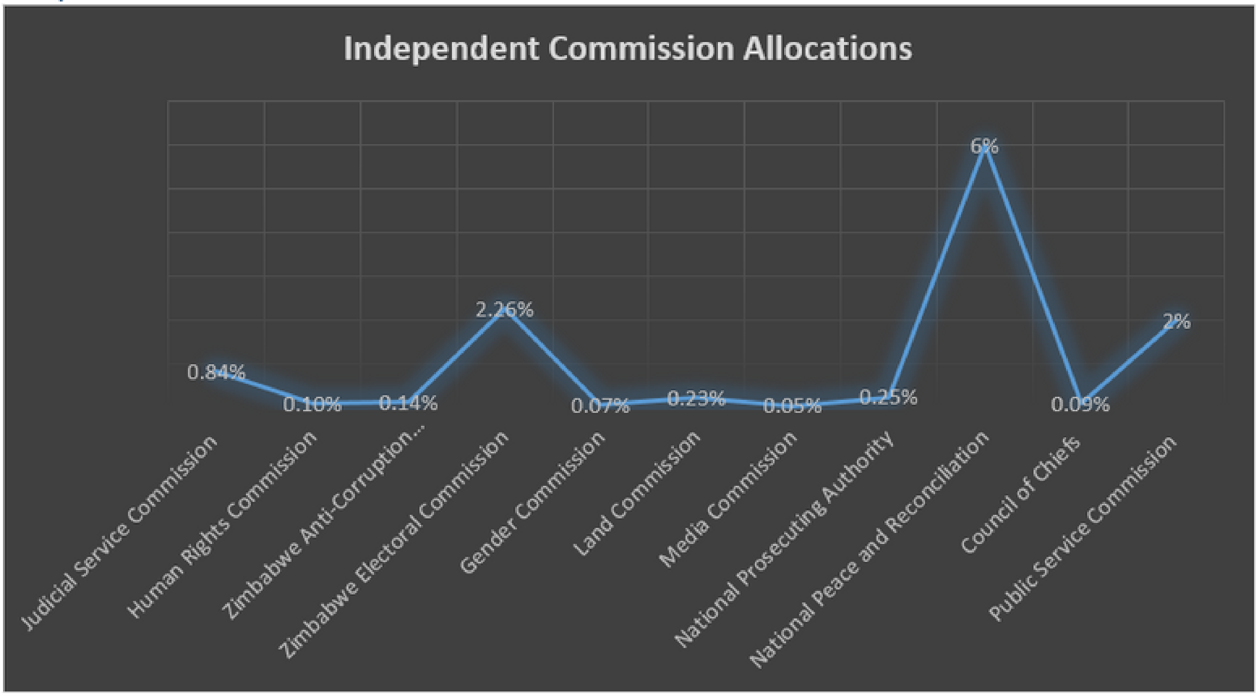


Bottom 10



Source: *Compiled by ZIMCODD from The 2023 National Budget*

Independent Commissions % Allocation



Source: *Compiled by ZIMCODD from The 2023 National Budget*

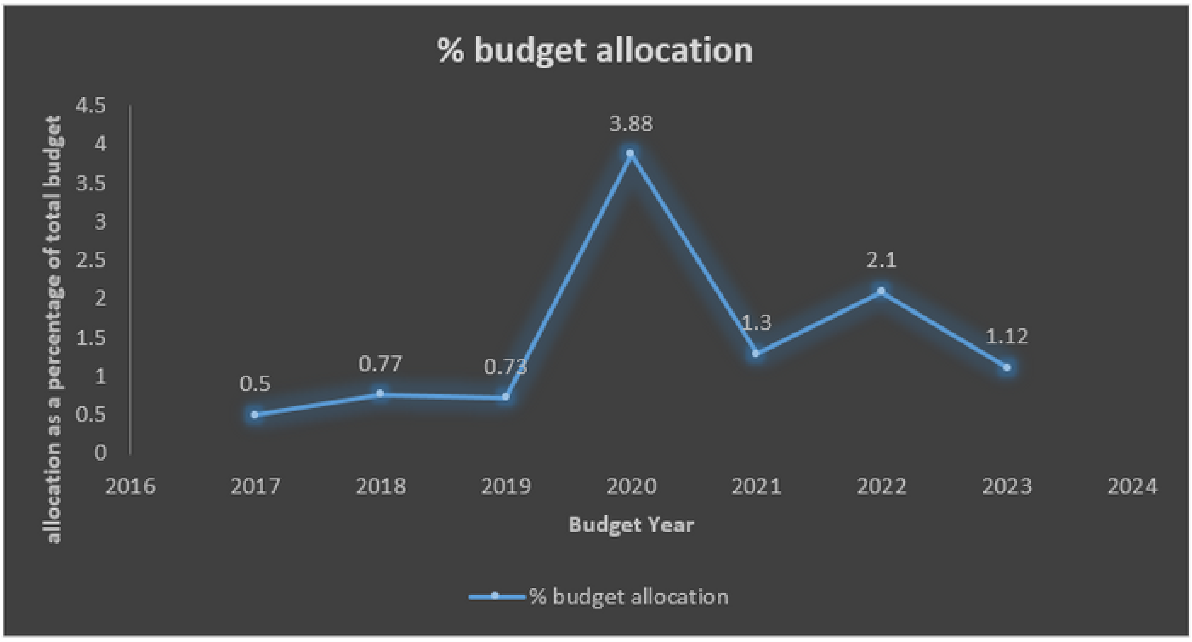
Trend Analysis of Budget Allocations Versus International Benchmarks

Sector	%threshold & International commitment	% Total budget 2021	% Total budget 2022	% Total budget 2023
Education	20% Dakar Declaration (2000)	16.5%	13.4%	14.02%
Healthcare	15% Abuja Declaration (2001)	13%	14.9%	10.5%
Water & sanitation	1.5% eThekwini Declaration (2008)	0	0.20%	3.17%
Transport & Infrastructure	9.6 AU Declaration (2009)	7.1%	6.5%	3.2%
Social Protection	4.5% Social Policy for Africa (2008)	1.30%	2.10%	1.20%
Agriculture	10% Maputo Declaration (2003)	11%	13.3%	8.05%

Source: *Compiled by ZIMCODD from national budgets (2021 to 2023)*

The consistent and systematic reduction in the vote for social protection raises should be a cause for concern to legislators and generality of Zimbabwean citizens, low funding for social protection mean poor living conditions and support for the elderly, child headed families, people with disability, orphaned children. The allocation pattern begs the question: Does our government care for the poor and vulnerable?

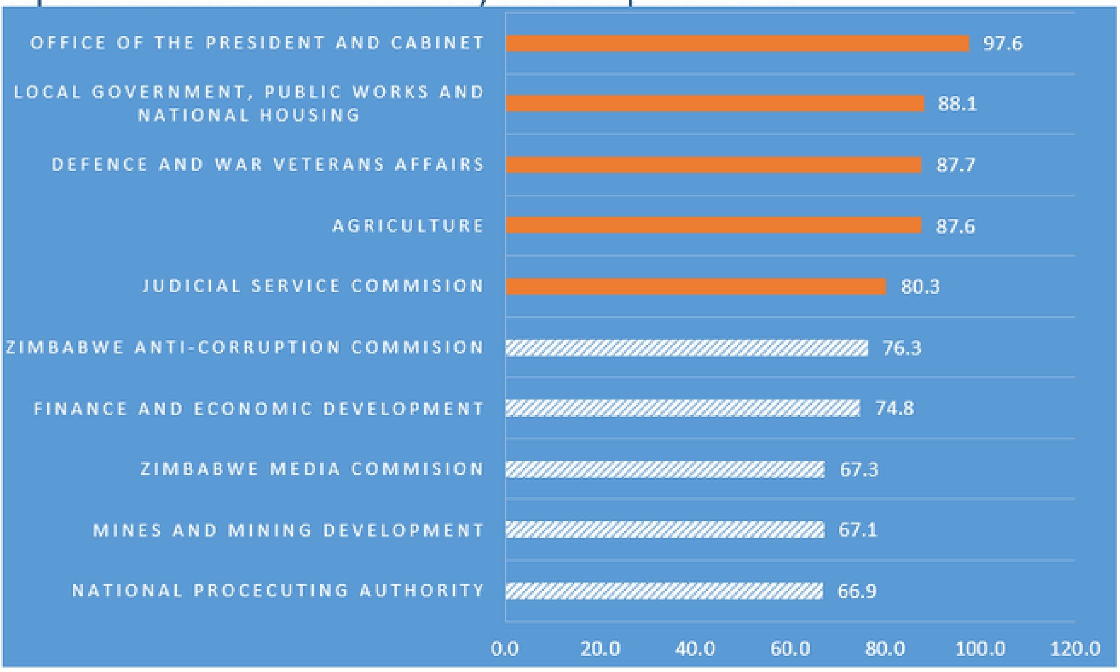
Trendy Analysis of Social Spending from 2017-2023



Source: *Compiled by ZIMCODD from the 2017-2023 National Budget*

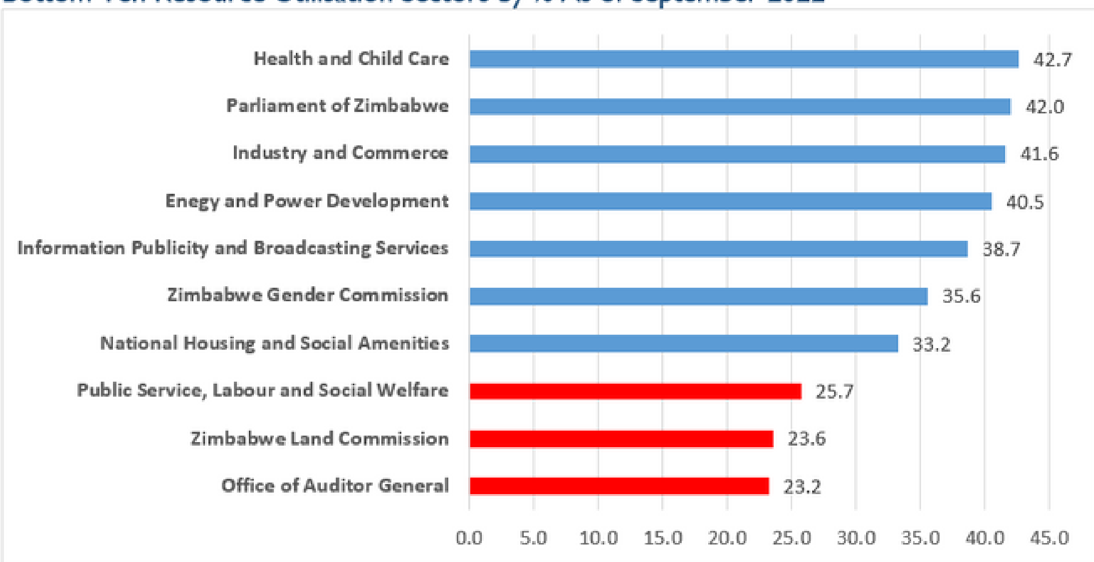
5 Resource Expenditure

Top Ten Resource Utilisation Sectors by % As of September 2022



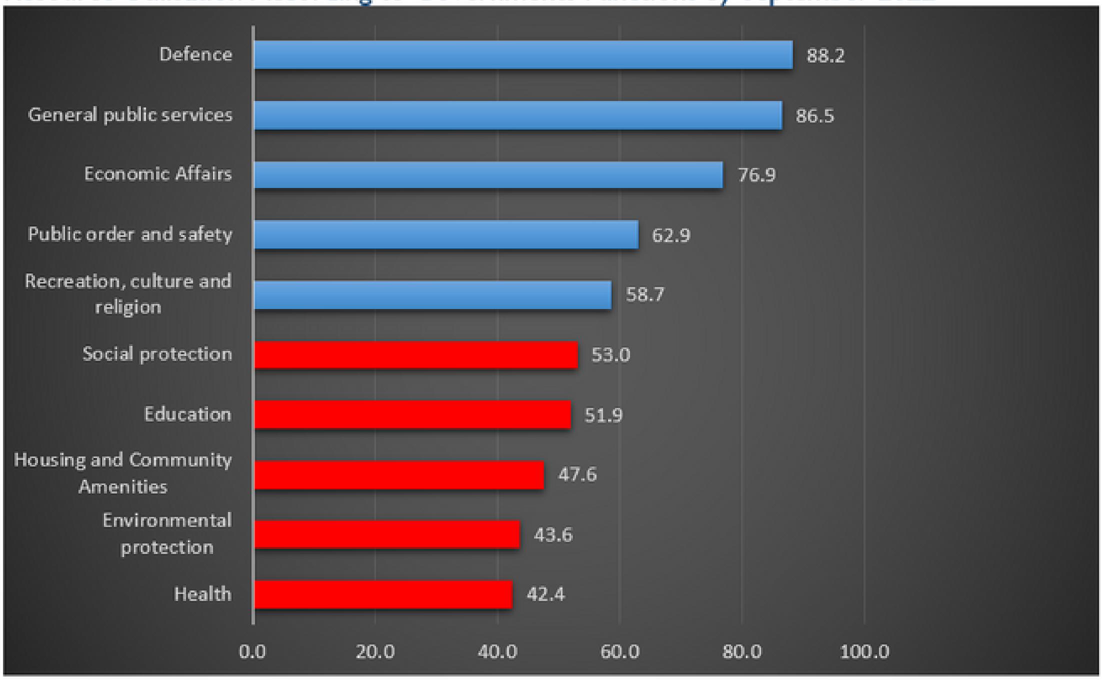
Source: *Compiled by ZIMCODD from The 2023 National Budget*

Bottom Ten Resource Utilisation Sectors by % As of September 2022



Source: *Compiled by ZIMCODD from The 2023 National Budget*

Resource Utilisation According to Governments Functions by September 2022



Source: *Compiled by ZIMCODD from The 2023 National Budget*

6 Debt

- The 2023 Statement of Public Debt released along with the proposed budget revealed that total public and publicly guaranteed (PPG) debt as of the end of September 2022 stood at ZWL10.97 trillion (US$17.6 billion)[3] -an 477% and 2.3% uptick in ZWL and USD terms respectively from ZWL1.9 trillion (US$17.2 billion) recorded as of the end of December 2021.
- The total PPG comprises an external debt stock of ZWL8.7 trillion (US$13.99 billion) with about ZWL3.9 trillion (45%) being arrears and penalties. Statistics also show domestic debt standing at ZWL2.2 trillion (US$3.5 billion).
- According to the debt statement, the astronomical increase in debt stock in ZWL reflects exchange rate deterioration while a 2.3% USD growth rate of debt accounts for new disbursements for ongoing projects, Reserve Bank of Zimbabwe (RBZ), borrowing, and continuous accumulation of penalties.
- The burgeoning debt arrears and penalties show that Zimbabwe is trapped in debt distress -struggling to settle obligations when they fall due. Despite this, the appetite for borrowing by authorities continues to persist.

3. Official exchange rate in September was 621.9 ZWL/USD

7 Tax Regime

- As usual, the 2023 proposed budget shows that the Treasury under the stewardship of Prof. Mthuli will continue with an anti-poor stance.
- Amid high market expectations for a sustained price increase in 2023, the Treasury is proposing to maintain the 2% tax and restore the value-added tax (VAT) to its pre-COVID level of 15% from the current 14.5%.
- The executive budget is also increasing excise duty on energy drinks by 100%. It is the poor who consume these drinks in a quest to recoup energy drained by indecent jobs and underemployment.
- Again, Treasury will not extend the suspension of import duty on basics thus risking exposing the poor majority to high market prices from profiteering businesses. Although the proposal to increase ZWL income tax bands is welcome, the first tranche [ZWL0 - ZWL900 000] attracts a 0% tax.
- This translates to a paltry ZWL75 000 per month, an amount providing insignificant relief to workers. The amount can hardly sustain an average urban household of four (4) for a fortnight.
- Nevertheless, the proposal to lower the tax rate applied on domestic USD transfers to 2% in 2023 from the current 4% is welcome and expected to partly cushion those on the lower-earning spectrum.

8 Conclusion

ZIMCODD commends government efforts in fulfilling international commitments such as the Water and Sanitation which satisfied the 1.5% Ethekwini Declaration of 2008. However, it would have been more prudent if the budget had satisfied other international commitments such as Education [20% Dakar Declaration (2000)], Health [15% Abuja Declaration (2001)], Transport and Infrastructure [9.6 AU Declaration (2009)], Agriculture [10% Maputo Declaration (2003)] and Social Protection [4.5% Social Policy for Africa]. ZIMCODD also suggest that, budget expenditures be aligned with the objectives and goals of the National Development Strategy 1 (NDS1) so as to infuse economic transformation that takes into account human development indices such as disposable income per capita, decent jobs, access to basic social amenities such as health, shelter, education, water, food and clothing.