Analysis of the Mid-term Budget Statement

2023

ZIMCODD
ZIMBABWE COALITION ON DEBT & DEVELOPMENT

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introduction

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Treasury released a press statement in August 2023 summarizing the performance of the 2023 approved budget in the first half of the year (1HY23). The 2023 budget implementation experienced many headwinds as macroeconomic fluctuations were more frequent and severe during this period. These fluctuations have greatly affected social service delivery, eroded the value of earnings, reduced consumers' ability to pay for basic goods & services, disrupted business predictability, widened societal inequalities, and plunged many people into extreme poverty. As such, the Zimbabwe Coalition on Debt and Development (ZIMCODD) seeks to succinctly analyze the 2023 Mid-term Budget Review.

context

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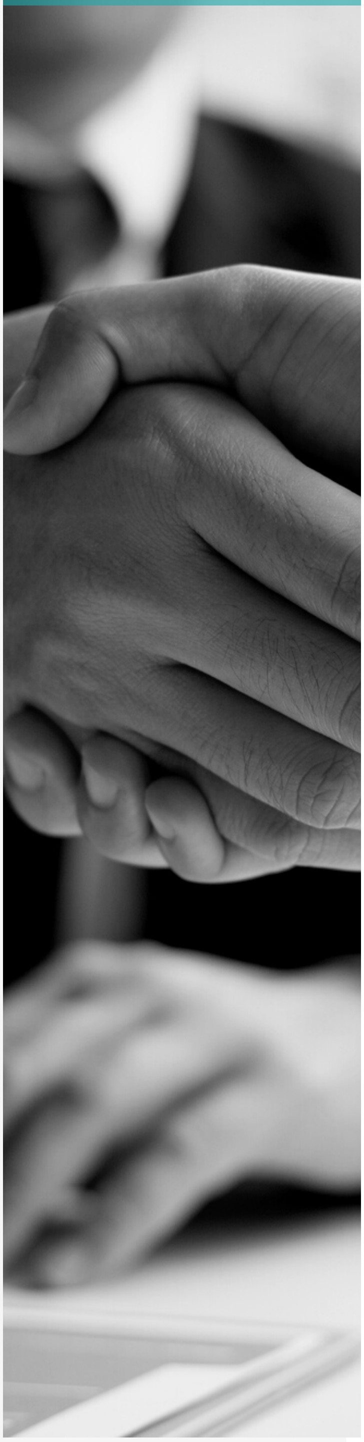
The national budget mid-term budget review is a critical component of an effective Public Finance Management System (PFMS). It functions as an operational evaluation mechanism, that informs the government on whether the allocated resources for that particular year are enough or there is a need to allocate additional resources. Thus, the national budget mid-term is the nerve center of optimum good governance as it seeks to foster transparency and accountability. As an evaluation tool, it helps the government to realign resources to specific projects and objectives thereby ensuring the attainability of intended goals. Unfortunately, for the year 2023, the Ministry of Finance and Economic Development did not avail the full budget mid-term review (at the time the analysis was done) except for a 7 paged press statement which was released on the 11th of August.

As of the 28th of August, ZIMCODD relied on the Treasury's press statement with no access to the full mid-term review; a factor that militates effective Public Finance Management (PFM). It is also critical to note that the failure to produce a full mid-term review as per public expectation might be attributed to the 2023 elections.

As the entire government is submerged in elections, a detrimental effect of state-party conflations undermines optimum governance. The ministers, deputy ministers, and permanent secretaries who are supposed to be leading the government's day-to-day operations were one way or the other focusing on the election process rather than government business. This also projects the government`s attitude towards national projects as politics takes precedence over national development and growth.



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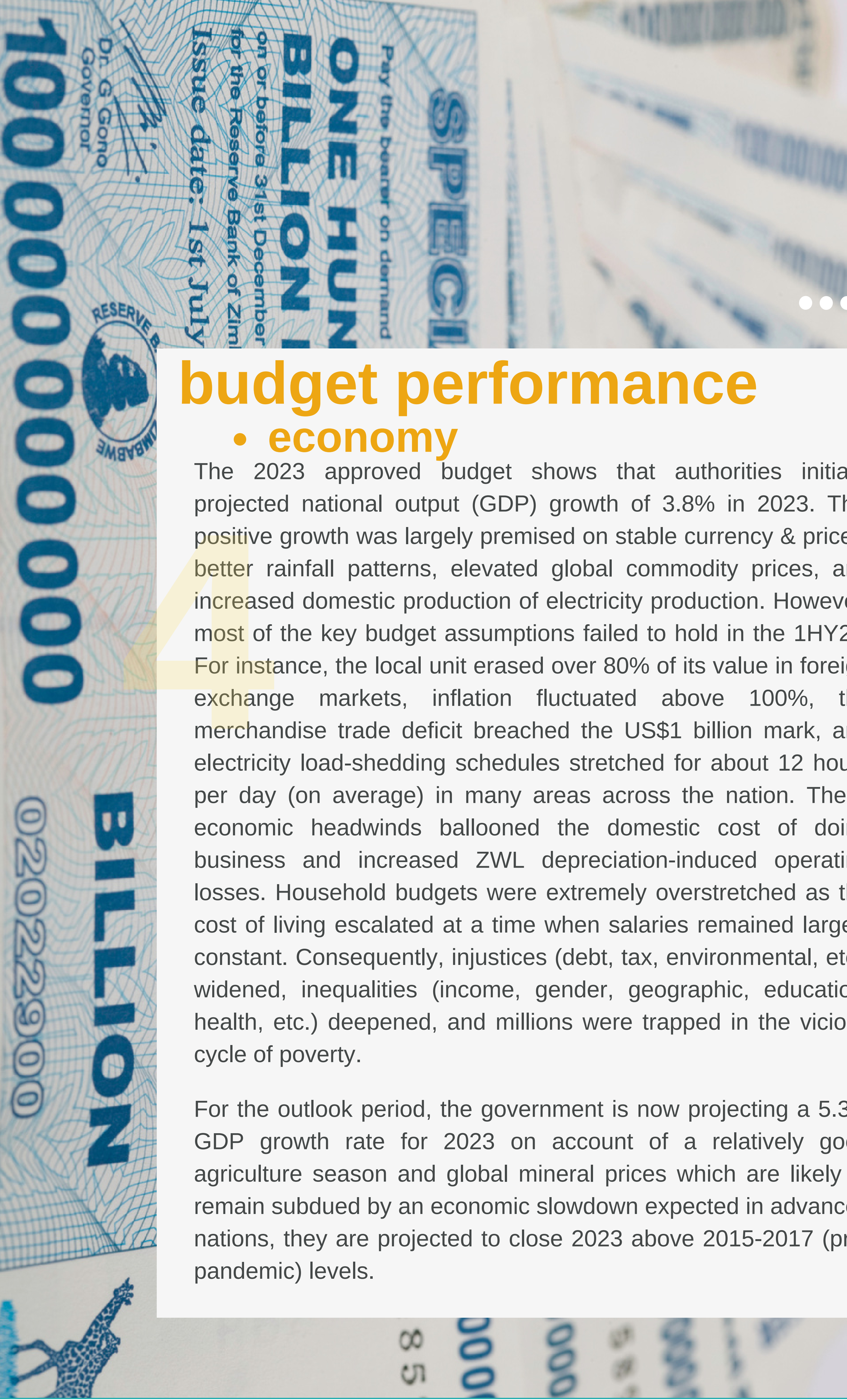
supplementary budget

The 2023 approved national budget has an expenditure ceiling of about ZWL4.5 trillion. The Ministry of Finance and Economic Development (MoFED) also commonly referred to as the Treasury projected to collect about ZWL3.9 trillion for 2023 through its taxman, the Zimbabwe Revenue Authority (ZIMRA). The budget balance (deficit) of ZWL575.5 billion was to be raised through borrowing. In the latest 2023 Mid-term Budget Review, the Treasury indicated that it raised about ZWL4.3 trillion in the first half of 2023 (1HY23). This 1HY23 revenue collection outturn is 34.4% higher than the total revenue collection that is projected in the 2023 approved budget. At the same time, Treasury statistics showed that remuneration of public workers, infrastructure projects, and operational costs in the 1HY23.

Overall, the Treasury had a budget surplus (revenue collected exceeding incurred expenditures) of roughly ZWL600 billion in 1HY23. Buoyed by this surplus, the Treasury decided not to table a Supplementary Budget in 2023.

However, the increased currency volatility experienced in 1HY23 erased at least 80% of the value of the local currency (ZWL) against the US dollar (USD). This fuelled inflation beyond the reach of many, averaging 124.5% per month in the 1HY23. The excessive ZWL depreciation and high market prices increased nominal government expenditures. In the 1HY23 alone, about 82.2% of the 2023 approved budget had already been utilized leaving only 17.8% for the 2HY23. The norm is that fiscal spending is expected to remain highly elevated in 2HY23 to address deteriorating public service delivery and sustainably increase the remuneration of the civil service. Zimbabwe is also on hunger alert as El-Nino weather conditions are projected for the upcoming 2023/24 cropping season. Resultantly, more fiscal spending to support climate-smart agriculture (CSA), as well as vulnerable smallholder farmers, must be prioritized in 2HY23 in order to minimize the impacts of a likely drought. More so, public debt servicing costs through the national budget are rising due to elevated domestic and global interest rates as well as frequent and sharp ZWL fluctuations. With statistics showing that the 2023 approved budget is almost depleted amid mounting fiscal spending, the Treasury must ask Parliament for a Supplementary Budget. This is because by law it requires authority from Parliament to spend excess revenues or exceed the approved expenditure ceiling.



budget performance

• economy

The 2023 approved budget shows that authorities initially projected national output (GDP) growth of 3.8% in 2023. This positive growth was largely premised on stable currency & prices, better rainfall patterns, elevated global commodity prices, and increased domestic production of electricity production. However, most of the key budget assumptions failed to hold in the 1HY23. For instance, the local unit erased over 80% of its value in foreign exchange markets, inflation fluctuated above 100%, the merchandise trade deficit breached the US$1 billion mark, and electricity load-shedding schedules stretched for about 12 hours per day (on average) in many areas across the nation. These economic headwinds ballooned the domestic cost of doing business and increased ZWL depreciation-induced operating losses. Household budgets were extremely overstretched as the cost of living escalated at a time when salaries remained largely constant. Consequently, injustices (debt, tax, environmental, etc.) widened, inequalities (income, gender, geographic, education, health, etc.) deepened, and millions were trapped in the vicious cycle of poverty.

For the outlook period, the government is now projecting a 5.3% GDP growth rate for 2023 on account of a relatively good agriculture season and global mineral prices which are likely to remain subdued by an economic slowdown expected in advanced nations, they are projected to close 2023 above 2015-2017 (pre-pandemic) levels.

Despite levels trending downwards at Kariba dam, the electricity supply is expected to improve in 2HY23 relative to 1HY23 due to the coming onboard of new production units, Hwange Units 7 & 8, with a combined capacity of 600MW.

The ongoing economic infrastructure projects like roads and dam construction will also help solidify domestic economic activity. Furthermore, authorities have also instituted various stabilization measures that have helped tame currency depreciation and high price inflation in July and August 2023. Nevertheless, the balance of risks to the outlook is largely tilted to the downside. The looming risks include inter alia, public corruption, debt distress, poor social contract, post-electoral risks, mounting fiscal spending, exchange rate volatility, inflation pressures, El-Nino-induced drought, and Russia-Ukraine war uncertainties. These will likely constrain economic activity, worsen the natural resource curse, subdue social service delivery, and plummet living standards.

• social protection

The national mid-term budget press statement does not provide intimate details of the budget`s performance with respect to social spending. The unavailability of such critical data is not a new phenomenon in Zimbabwe Public Finance Management (PFM) as the government benefits from the opaqueness of PFM. The mid-term review shows that the government “disbursed ZWL$48.2 billion for social protection programmes during the first half of the year, towards BEAM (ZWL$36.1 billion), drought mitigation (ZWL$6 billion), and harmonized cash transfers (ZWL$3.2 billion), among others”. Interestingly, the government is almost exhausting social protection resources without bringing any meaningful social transformation.

The evidence from the review of the 2023 national budget also shows over-expenditure in the Basic Education Assistance Module (BEAM) of 56.9% which translates to ZWL13.1 billion. While Drought Mitigation (DM) utilized approximately 50% of its allocated resources and 34.7% for Harmonised Cash Transfer (HCT). Thus, BEAM, HCT, and DM mid-term expenditures are approximately ZWL45.3 billion which is less than the submitted social protection figure of ZWL48.2 billion.

Thus, rather than using an opaque statement like "among other", it is critical that the government clearly specify what the ZWL2.9 billion variance from the supposed utilized resources ZWL48.2 billion, and the actual utilization from BEAM, HCT, and DM which is ZWL45.3 billion was used for.

Therefore, for juxtaposition's sake an evidenced-based analysis presented hereunder in Fig 1 which is an extract from the 2023 National Budget which shows social protection allocation.

Fig I: 2023 National Budget Social Protection Program Funds Allocation (In ZWL Billion).

Programme	Amount
Basic Education Assistance Module	23,000
Children in difficult circumstances	1,230
Children in the street	430
Drought Mitigation	12,100
Harmonised Cash transfers	9,280
Health assistance	1,100
Support to elderly persons	400
Pauper burial	500
Support to disabled persons	1,464
Sustainable Livelihoods	635
Management Information System	105
Covid Response	200
Total	**50,444**

Source: MoFED

It is with no doubt from the above examination that, social protection resources are almost exhausted yet no meaningful transformation has been witnessed. Of critical importance is the deliberate negation and divergence of funds for other social protection programmes such as Health Assistance, Support to the elderly, Pauper Burial, Support to Persons with Disability, Sustainable Livelihoods, Children in the Streets, Management Information Systems, COVID-19 Response and Children in Difficulty Circumstances. This narrative stands true unless there is an over-expenditure that was not stated or captured in the mid-term review statement. If indeed there is an over expenditure that was not captured, that means that the government has not spent any cent on other social protection programs such as Health Assistance, Support to the elderly, Pauper Burial, Support to Persons with Disability, Sustainable Livelihoods, Children in the Streets, Management Information System, COVID-19 Response and Children in Difficulty Circumstances. A scenario that entrenches and institutionalizes inequalities across the country.

Furthermore, a reflection on the current humanitarian situation in the country tempts one to align with the above submission that, the government is yet to spend on other social protection programs presented above. The health sector is currently in shambles coupled with dilapidating and infrastructural gaps. Child support, support for the elderly, and persons with disabilities are all wanting. This scenario raises a lot of questions with respect to the rights of the minority and vulnerable clusters of the community. School dropouts, poverty, and malnutrition have become common characteristics of the Zimbabwean humanitarian ecology.

tax relief & revenue enhancing measures

The press statement summarizing the 2023 Mid-term Budget Review did not specifically provide additional tax relief and revenue-enhancing measures. This was likely influenced by the fact that nominal revenue collections by ZIMRA are rising to match mounting nominal fiscal spending. Partly driving this nominal growth in tax revenue collection is elevated inflation. As prices upscale, consumers spend more on the same basket leading to higher tax collection such as value-added tax (VAT) and the infamous 2% tax (Intermediated Money Transfer Tax, IMTT). In addition, the economic stabilization measures implemented between May 2023 and June 2023 included some revenue-enhancing measures such as a 1% tax on all foreign payments. As such, the Treasury expects the 2023 budget deficit to remain on target at1.5% of GDP.

Furthermore, the Treasury had earlier in August 2023 provided tax relief through a review of personal income tax. As of January 2023, the tax-free threshold was set at ZWL91,666 per month. However, economy-wide salary reviews necessitated by increased macroeconomic fluctuations experienced in 1HY23 (though minimal) resulted in tax bracket creep for many workers. To provide taxpayer relief by reversing the erosion of incomes and increasing consumer purchasing power, the Treasury increased the monthly tax-free threshold to ZWL500,000 while the highest marginal tax rate of 40% was reviewed from ZWL1 million to ZWL15 million. While this is commendable, Treasury must do more to bring relief to already overtaxed taxpayers. It must increase the salaries (ZWL and USD components) for civil servants to match the estimated poverty datum line (PDL). The tax-free threshold must be set at par with PDL and the ZWL component be indexed at the interbank rate while scratching or significantly reducing the 2% tax on all basics.

public debt

Treasury statistics show that as of the end of 2022, total public and publicly guaranteed (PPG) debt amounted to US$18.03 billion, which constitutes about 99.6% of 2022 GDP. As such, the nation is trapped in debt distress – inability to service obligations when they are due and debt restructuring is required. For instance, of the US$12 billion PPG debt owed externally, about 52% are arrears (interest & principal) and penalties. High indebtedness is now crowding out public service delivery & infrastructure development. In the 1HY23, the Treasury mobilized resources amounting to ZWL191.6 billion through Treasury Bills (TBs) issuance. The raised funds were channeled toward the liquidation of maturing TBs and Bonds worth ZWL144.2 billion and external debt payments totalling US$28.2 million instead of service delivery.

More so, unsustainable debt has directly damaged capital inflow into Zimbabwe's economy and has led to a vicious debt cycle – a cycle of continuous borrowing, accumulating payment burden, and eventual default. The previous defaults have caused Zimbabwe to lose market access and suffer higher borrowing costs, in addition to harming growth and investment. Authorities have crafted an arrears clearance and debt resolution strategy and are currently engaging with its creditors through a high-level structured debt dialogue platform. The success of the debt dialogue in resolving the debt conundrum will depend on the swift implementation of governance, land tenure, and economic reforms.

budget transparency

The attainment of budget transparency remains problematic in Zimbabwe and it calls for urgent interventions from various stakeholders in budget literacy. Budget transparency allows the citizens to undertake pre-budget implementation, implementation, and post-implementation evaluations commonly known as formative, implementation, and summative evaluation which is important. Budget transparency is also critical in budget monitoring and expenditure tracking which is quintessential in fostering national growth and development. However, despite an unlimited flow of benefits of budget transparency the government continues to create opaque scenarios by not furnishing the public with the granular details of budget expenditure. The mid-term review is a clear testimony to this assertion as it falls short of all budget transparency thresholds (national, regional, and international). The mid-term review was done to tick the box and not to guarantee budget transparency. Nonetheless, it is worth acknowledging that the government has already released the 2024 Budget Strategy Paper (BSP). The BSP is variable that is also used to measure budget transparency, but is not adequate on its own as it does not in any way guarantee budget transparency.

8 conclusion

Zimbabwe experienced massive macroeconomic fluctuations in the first half of 2023 that have greatly affected the 1HY23 performance of the 2023 approved budget. High exchange rate depreciation and hyperinflation have wiped the real value of earmarked budget funds thereby affecting service delivery and resulting in output growth that is not stable and inclusive as per the target of the NDS1. As such, the Treasury must table a Supplementary Budget to address dilapidating social & economic infrastructure while instituting robust reforms to make ongoing stability durable and sustainable.

9 recommendations

- There is a need for increased political will to allow the swift implementation of reforms to protect the vulnerable, reduce waste in government, and curb market pricing distortions.
- The Ministry of Finance and Economic Development must operate optimally whether it is election year or not. This will guarantee the production of a full Mid-term Review, not a press statement which masks a lack of transparency & accountability.
- The Ministry of Finance and Economic Development must inform the Parliament of all expenditure divergence or utilization of excess revenues.
- The Ministry of Finance and Economic Development must set aside supplementary resources for social protection for the second half of the year 2023. An examination of the current humanitarian crisis must be used to inform the supplementary budget.
- The government must embrace domestic resource mobilization (DRM) to make better use of and maximize existing natural resources rather than relying on borrowing. This will allow it to fund its own development goals sustainably.
- Debt audits must be carried out regularly. The nation must also develop and stick to a clear debt management strategy to ensure that spending needs are met at the lowest possible cost.
- Value addition and beneficiation of raw materials and diversification of the economy toward multiple sources of income from a growing range of sectors & markets. This helps to manage volatility and provide a more stable path for equitable growth.