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THE WEEKEND READER

"Your Weekly Read on Debt, Development & Socio-Economic Justice"

2024 BUDGET AMENDMENTS

The 2024 national budget became law in December 2023 when the Parliament passed the 2024 Finance Act and the 2024 Appropriation Act. The former contains the proposals of the government for the levy of new taxes, modification of the existing tax structure, or continuance with the existing structure beyond the period approved by Parliament, while the latter appropriates government funds to specific government ministries, departments, and agencies (MDAs) and various government-funded programs. The passage came after a Parliamentary debate that brought some amendments to the initial proposals in the executive budget presented by the Treasury on the 30th of November 2023. These amendments came after a public outcry and advocacy from civil society, as the budget was viewed as largely anti-poor and anti-growth.[1] Some of the key amendments are summarized below:

- 1% Wealth tax: The tax threshold was increased to US$250,000 from the initially proposed US$100,000, with the tax payment limit now set at US$50,000 per year from any individual, and primary residences are now exempted from wealth tax.
- Passport fees: In 2023, ordinary passport fees were pegged at US$120. The 2024 executive budget proposal increased the ordinary passport fees by 67% to US$200, which Parliament reduced by 25% from the initial US$200 to US$150.
- Tollgate fees: The initial Treasury proposal significantly increased toll fees on premium roads. For example, toll fees for light vehicles were hiked by 150% from US$2 to US$5. The approved budget slightly reduced the toll fees for light vehicles from US$5 to US$4.
- Sugar Levy: The 2024 executive budget introduced a levy of 2 cents per gram of sugar in beverages, excluding water, of which the funds were to be ring-fenced for cancer treatment. Parliament slashed this sugar levy by 90% to 0.2 cents per gram.
- Spending Adjustment: The Parliament made additional allocations of ZWL70 billion to ZIMRA, ZWL225 billion to Parliament, bringing the total to ZWL700B, ZWL10 billion to the Office of the Auditor-General (the initial budget was ZWL116B), ZWL20 billion to Ministry of Women Affairs and SME Development, ZWL50 billion to the Ministry of Youth Empowerment, Development & Vocational Training, ZWL10 billion to the Ministry of Tourism and Hospitality Industry, and ZWL7 billion to the Ministry of Higher & Tertiary Education for disabled students.

2024 Budget Implications

- As alluded to earlier, the Parliament listened to the public concerns about the initial 2024 budget proposals, leading to some amendments.

1. https://zimcodd.org/wp-content/uploads/2023/12/The-Weekend-Reader-1-December-2023.pdf

However, the whipping system being followed in Parliament stifles constructive debate, as shown by many regressive tax proposals that were left intact. Some of the passed regressive proposals are briefly explained below:

- Social Protection Programmes: The final 2024 budget failed to significantly increase budget votes for social protection programs. Only 4.12% of approved budget funds were earmarked for flagship social protection programs like the Basic Education Assistance Module (BEAM), child protection services, and support for older people and persons with disabilities. With the Treasury's track record of late disbursements, the value of these funds, which are already inadequate to provide cushion to vulnerable groups, will likely be eroded by inflation.

- Crowd-out Informal Traders from Supply Chains: The informal traders are now restricted from purchasing goods and services directly from manufacturers without possessing valid tax clearance certificates and value-added tax (VAT) registration. Although the VAT registration threshold was reduced from US$40,000 to US$25,000, the amount remains beyond the reach of many informal traders & small businesses. This policy move is detached from reality as the economy has primarily become informal, with about 70% of economic activity estimated to occur in the informal economy. Also, this policy stance will significantly hurt local manufacturers as an influx of cheap imports will substitute local products.

- Paltry Tax-Free Threshold: The Treasury reviewed the monthly tax-free threshold from ZWL500,000 to ZWL750,000. Although this will relieve low-income earners, the tax-free amount is grossly inadequate given the context of persisting ZWL depreciation and ZWL inflation. For instance, with market prices benchmarked at the parallel exchange rates, ZWL750,000 is equivalent to about US$60 at the current week's average parallel exchange rate of ZWL/USD 12,000. As such, the public believes that the tax-free threshold must be indexed to the all-items consumer price index (CPI).

- VAT Zero Ratings and Exemptions: VAT zero ratings are now limited to exports, while VAT exemptions are only limited to selected goods like medicines and medical services. All other goods and services, including basics, are now standard-rated. This policy is disproportionately affecting vulnerable members of society (the poor majority) who generally have a high marginal propensity to consume.

- COVID-19 and Cushioning Allowance: The civil servants' US$300 COVID-19 allowance has become part of the pensionable emoluments – salary component. While this move has increased the real value of salaries for civil servants, it is now subjected to tax, further reducing disposable incomes for already lowly-paid government workers.

- Increase Strategic Fuel Reserve (SFR) Levy: The SFR levy was increased by US$0.03 and US$0.05 per liter of diesel and petrol, respectively. The SFR adjustment and an increase in toll gates and fees are pushing public transportation costs upwards. The policy stance is also ballooning the cost of doing business, increasing the prices of final goods, and subduing hiring (more unemployment).

Treasury 2024 Budget U-turn

As the regressive budget proposals came into effect in January 2024, as expected, consumers witnessed significant hikes in the shelf prices of many essential goods, such as bread, rice, cooking oil, meat, and beverages. By removing the VAT zero-rating of basic commodities, the Treasury intended to increase tax revenue collections.

Table 1: Treasury Budget Amendments

Approved Budget	Treasury Amendment
• The approved budget has a sugar levy of 0.2 cents per gram.	• Treasury adjusted the sugar levy to US$0.001 per gram of sugar.
Route to Market: • The traditional distribution chain is to be followed: producer to wholesaler, retailer to consumer. • Traders without tax clearance certificates & VAT registration are not allowed to buy from manufacturers. • The VAT registration threshold was reduced to US$25,000 from US$40,000.	• VAT-registered retailers with valid tax clearance certificates can now purchase from manufacturers. • Manufacturers are permitted to sell directly to institutions such as hotels and schools provided these are VAT registered & possess valid tax certificates. • Perishable goods like bread & milk will be distributed directly to retailers. • Rural traders, even those not registered for tax purposes, continue purchasing from wholesalers. Manufacturers can also directly supply small rural traders. • Customers unregistered for VAT & without tax certificates but buying directly from manufacturers to pay a 5% Withholding tax.
VAT zero rating will be limited to exports, while VAT exemptions will be only limited to selected goods like medicines & medical services.	• Cotton seed & soya beans, and derivative products are now VAT exempted. • Basics, including bread, milk, cooking oil, mealie meals, salt, sugar, and flour, are exempted from VAT. • Other basics: meat, rice, bath & laundry soap, washing powder, toothpaste, and petroleum jelly moved to standard rating.

Source: Treasury Press Statement[2]

However, as warned by economic analysts, this policy move disproportionately impacted the poor majority through increases in market prices. Economic theory posits that poor people have a high marginal propensity to consume (MPC); that is, they spend almost all of their incomes on current consumption with little savings for the future.

2. https://africa.cgtn.com/zimbabwe-scraps-vat-on-basic-goods-amid-price-hike-concern/

As such, the increase in the prices of essential goods significantly reduces their disposable incomes. It also reduces vulnerable groups' access to food in a year when food availability is expected to fall as the country battles El Nino weather conditions. More so, high domestic prices encourage the smuggling of cheap imports, which can have dire consequences on the health of ordinary citizens (unregulated importation of GMOs), sustainability of domestic industry (stiff competition from cheap imports), and lower government tax revenue collections (smuggling is a form of tax evasion). Cognizant of the preceding, the Treasury made an abrupt U-turn, reversing some of these proposals as indicated in Table 1.

The adjustments made by the Treasury have vindicated the public’s earlier reservations about how the 2024 budget process was conducted. The process was hardly participatory; for instance, public hearings were done virtually, crowding out views of marginalized and vulnerable groups. Had authorities provided adequate time for budget consultations with critical stakeholders, including business, consumers, labor, and civil society, some of these anti-people and anti-growth proposals in the 2024 budget would not have been passed and become law. While the public commends the Treasury for being spectacularly flexible in correcting this anomaly and protecting poor citizens who faced the brunt of price hikes, the public still believes these policy reversals/adjustments must be tabled before Parliament for debate and vote. Similarly, at least further amendments are required to make the 2024 budget pro-poor and pro-growth.

Furthermore, there are other non-tax and non-inflationary strategies that the Treasury can employ in broadening the revenue generation base to support sustained and inclusive economic growth and development. These include, among others, fighting corruption and impunity by strengthening existing legal and regulatory frameworks, capacitating accountability and oversight institutions, implementing e-procurement and value-for-money processes, enforcement performance contracts for top government officials, and adopting advanced technologies at ports of entry and exits such as surveillance drones and drug-detecting machines. There is also a need to develop, operationalize, and fully implement the National Formalization Strategy to simplify business registration procedures & processes, implement progressive taxation for MSMEs, automate tax payment and taxpayer education, establish codes of conduct for the employment of workers in the informal economy, improve labor inspection and new approaches to formalization, and ensure tremendous respect for the law, including extending labor protection to unprotected sectors. In addition, the government must fully diversify the economy to reduce revenue risk by supporting value addition and beneficiation, particularly agro and mineral value chains.

Sinking in Debt

The Public Debt Management Office (PDMO) revealed that total public and publicly guaranteed (PPG) debt was marginally up by 0.6%, in annual terms, to US$17.7 billion as of the end of September 2023 from US$17.6 billion as of the end of September 2022. Of the September 2023 total PPG debt stock, 72% (US$12.7 billion) was contracted externally, while 28% (US$5 billion) was contracted from the domestic market. The external PPG debt comprises bilateral debt (US$6 billion), multilateral debt (US$3.1 billion), and Reserve Bank of Zimbabwe (RBZ) debt (US$3.6 billion).

In the same vein, the total domestic PPG debt consists of compensation to Former Farm Owners (FFOs) (69.7%), government securities (29.2%), and arrears to service providers (1.1%). Further analysis shows that the September 2023 total PPG debt stock is 1.8% lower than the US$18.02 billion recorded in December 2022. The decline is attributable primarily to a decrease in external PPG debt due to a US$684.8 million decrease in liabilities on the RBZ balance sheet.

While the appreciation of the USD against the Euro between December 2022 and September 2023 reduced euro-denominated external debt[3] by US$37.9 million, the gain was entirely offset by a US$227.6 million increase in debt penalties. Regarding servicing existing domestic debts, maturing Treasury Bills and Bonds (TB&Bs) to the tune of ZWL503.3 billion and an interest bill of ZWL299.3 billion were settled. To expunge claims under blocked funds, the government has issued long-term USD interest-free securities, and a Debt Redemption Fund has since been established to service maturing bonds. As for external debt servicing, the Treasury paid a combined US$55.6 million between January 2023 and September 2023 for active portfolios to trigger disbursements for ongoing projects (47.5%), legacy debts (33.4%), and token payments (19.1%). In the same period, Zimbabwe concluded a US$400 million loan with Afreximbank for budget support and trade-related infrastructure and a US$37 million loan contract from IFAD for horticulture production and sales. For 2024, the Treasury projects a debt service burden of ZWL4.2 trillion to pay maturing TB&Bs (78.6%) and external loan repayments (21.4%).

3. As of September 2023, 31% of external debt is denominated in Euro