



Policy Brief

Strengthening the voice of NGOs

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2020 Mid Term Budget Review

Prospects for better economy constrained

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Introduction

In compliance with the Section 7 (2) (a) of the Public Finance and Management Act, the Minister of Finance and Economic Development presented the 2020 Mid Term Budget Review. The review is key to ensuring full and transparent accounts are regularly presented to Parliament. The Mid Term Budget Review is envisaged to highlight broadly the current and projected state of the economy, performance of the national income and expenditure and any major changes that could impact on the economy amongst other macroeconomic variables. Ideally, the review should provide details on economic developments during the first half of the year, progress on implementation of the 2020 National Budget and the macro-economic outlook and fiscal policy thrust, guided by the Transitional Stabilisation Programme

(TSP) objectives. Apart from mere adjustment of budget figures in line with the contextual analysis of the prevailing macroeconomic environment, the review gave an evaluation of progress made to-date in the implementation of the TSP since its inception in October 2018.

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The Mid Term Budget Review presents interesting dynamics for various sectors of the country, which the National Association of Non-Governmental

Organisations (NANGO) has attempted to unpack in brief. It is evident that the performance of the first six months of the year under review has a bearing on the performance of the economy during the last half of 2019 as well as the end term evaluation of the TSP. This review came amid the devastating COVID-19 pandemic which has seriously impacted the economic performance of many economies globally and to which Zimbabwe has not been spared.

Clear policy recommendations on fiscal measures for economic growth and development while promoting sustainable developments through prudent and expeditious utilization of public resources shall be proffered in this policy brief.

Macro-Economic Outlook

The review reaffirmed the government's commitment to implementing under the theme "Gearing for higher productivity, growth and job creation", of the 2020 National Budget which emphasised on growth stimulation and employment generation through promotion of productive oriented investment and productivity, without losing focus on fiscal responsibility. The review underscored the country's ranking improvement in the 2019 Open Budget Survey which reflects strides in increasing and timely availing of budget information to the general public and other stakeholders. Zimbabwe was ranked number 3 in Southern Africa which is

commendable. The revenue and expenditure outturn for 2020 may result in misrepresentation of facts regarding government revenue and expenditure performance, following the devaluation of the Zimbabwe dollar. Overall, economic growth projection has been revised downwards from 3% to -4.5% owing to the impacts of the COVID-19 pandemic amongst other structural economic, social and political bottlenecks.

Revenue

The 2020 revenue collection was projected at ZWL\$58.6 billion, comprising tax revenues of ZWL\$57.6 billion and non-tax revenue of ZWL\$1.1 billion. The projections were informed by broader macroeconomic assumptions including real GDP Growth of 3%. Cumulative revenue collections for the period January to June 2020 are estimated at ZWL\$34.2 billion, against a target of ZWL\$32.1 billion. This resulted in a positive variance of ZWL\$2.14 billion or 6.7% of projected. However, this positive variance should be celebrated with caution as it may not be reflective of growth in economic activity but the general rise in prices of goods and services owing to inflationary pressures coupled with exchange rate depreciation of the local currency against the United States Dollar.

This is unlike the rise in revenue due to a general growth in economic activity which is characterised by growth in production of goods and services. Thus during the first half of 2020, there was an increase in tax rates, levies and user fees collected by fiscal

authorities expressed in normal terms. It is worrisome that tax revenue continues to account for the bulk of the total revenue, with tax revenue collections contributing about 97.6%, while non-tax revenue contributing 2.4% of total revenue. Given the fact that our national budget is highly consumptive (recurrent expenditure), over taxation can reduce incentives to work, saving, investment, and innovation.

Expenditure

Total expenditures disbursements to June 2020 amounted to ZWL\$30Billion which translates to 46% budget utilisation. Of the expenditures to June 2020, recurrent expenditures constitute 65% of the total expenditure whilst 35% was channelled towards capital expenditures. This implies that the expenditures are high consumptive and this conquest the growth thrust envisaged in the 2020 national budget as well as the TSP blueprint.

Ministries have on average utilised 46% of their votes as at June 2020. This also implies that 54% of the original 2020 Budget remains unutilised. However, what is alarming is the fact that various critical ministries and sectors have relatively low budget utilisation percentages such as primary and secondary education (37%), health (39%), women affairs (25%), industry and commerce (23%), energy and power development (9%), environment (8%), mining 11% amongst others. All these sectors have budget turnouts below 46% which is the average budget utilisation despite that these are key drivers of growth and productivity as the main cornerstone of

the 2020 national budget. It also reflects untimely disbursements of budgets which negates efficiency and effectiveness in budget execution. Policy inconsistencies pose detrimental effects on the country's image and scares away investors the country is desperately in need of.

Inflation

As of June 2020, inflation rate (year on year) stood at 737.46%^[1]. This is against the projections made in the 2020 National Budget of having one-digit inflation rate in January 2020. Without addressing inflation pressures, achieving higher growth and productivity as expected of the 2020 national budget can remain a fallacy. According to the midterm review, inflation is expected to gradually decline in the second half of 2020, from the peak of 785.5% in May 2020, to 300% in December 2020, responding to current monetary and fiscal policy interventions. This trajectory is uncertain given the ever-evolving monetary policy reforms which erodes the efficacy of the two instruments which governments have in their motives to address inflation, that is, controlling the money supply and setting interest rates.

Inflation remains a critical indicator that requires control, management and regulation in order to realise the macroeconomic targets of the country.

Public Debt

As at December 2019, Total Public and Publicly Guaranteed (PPG) external debt stood at US\$8.094 billion. As at end May 2020,

[1]www.rbz.co.zw accessed on 17 July 2020

domestic debt stood at ZWL\$12.89 billion, an increase in domestic debt from ZWL\$9 billion as at 31 December 2019 despite having registered a budget surplus of ZWL\$800 million as of June 2020. This may mean that government is crowding out private investors considering that greater part of domestic debt is owed to statutory bodies and service payments to ZIMRA, NSSA, ZINWA and ZESA, this decision will impact on public service delivery. This partly explains the inability of ZESA to settle its external debt obligations for unpaid imports of electricity. The volume of external debt reflects that gains of the re-engagement process with the external creditors are taking long yet the arrears continue accumulating.

Economic impacts of COVID-19

According to the Mid Term Budget Review, the following has been the major challenges posed by COVID-19 in as far as the 2020 National budget is concerned:

- Lower commodity demand and international commodity prices;
- Reduced tourist arrivals due to travel restrictions;
- Disruption of global supply chains for both raw materials and final products and services;
- Slowing down of global financial flows including credit availability, remittances and portfolio investments;
- Currency volatility; and
- High inflation.

In response to COVID-19, government unveiled a ZWL\$18.2 billion Stimulus Package, which amounts to 28.6% of the 2020 National Budget. The Package is designed to:

- Scale-up production levels across all sectors of the economy;
- Address the constraints faced by a large section of small-scale industries
- Improve health facilities; and
- Reduce poverty and hardships to assist vulnerable groups in our society.

In the spirit of ensuring transparency and accountability in the use of public resources, it is of great concern that the review did not provide the expenditures made so far on COVID-19 yet it is necessary for citizens to be informed about such expenditures in order to demand social accountability in the use of public resources. It is commendable that the government has unveiled stimulus package but more importantly the resources have to be disbursed to their intended beneficiaries. Ideally the stimulus package is meant to translate to the realization of social and economic rights of citizens especially the most vulnerable. The failure to provide COVID-19 expenditure takes away the right of citizens and permanent residents of Zimbabwe to information guaranteed by section 62 of the constitution of Zimbabwe.

Key Sector Developments and Trajectories

Due to COVID19, all sectors are expected to register negative growth rates by December 2020 except for transport and communication; and health and social work activities. The cumulative effect of this trajectories is anticipated to result in economic recession of -4.5% as opposed to the projected growth rate

of 3% in the 2020 national budget. The implications of this projection is failure to meet the targets set in the 2020 national budget and eventually the TSP targets.

Agriculture Sector

Agriculture has remained the number one priority of the 2020 national budget accounting for 17.3% of the total budget. According to the mid-term review, drought, in particular, affected agriculture, the water and energy sectors, with spill-overs to the rest of the economy. This situation was further aggravated by currency volatilities, which fed into price increases.

As a result, the agriculture sector is expected to decline from 5% growth which was originally projected, to negative growth of -0.2% albeit having increased area planted by 101%. Another key note is that the energy and power development ministry has very low budget utilisation of 9% yet it is also a key driver of agricultural productivity. The mid-term review has not attempted to justify this low budget utilisation and disbursement.

Mining Sector

The review highlighted that the mining sector is contributing about 8% of total GDP. However, this analysis has noted with concern the 11% disbursement to the mining sector from January to June. This reflects a misrepresentation of fact where on one hand government seeks to ensure growth of the mining sector by 4% whilst on the other hand

only 11% is disbursed to the sector. This represents a backstop in achieving mining priority policy areas to attain this target and other TSP benchmarks which include enhancing exploration and investment in mining, modernisation and computerisation of the mining title administration system (mining cadastre), improving transparency in the mining sector and establishing a viable fiscal regime.

Furthermore, beneficiation and value addition of minerals cannot be achieved without timeous disbursement of resources to the sector. The mining sector is projected to slowdown to -4.1% in 2020, owing to the impact of COVID-19 and other challenges including perceptions around retentions, erratic power supply and loss of skills in the mining sector.

Manufacturing Sector

Manufacturing remains central for industrialising the country. However, it is admitted that the sector continues to face investment deficit and other challenges relating to foreign currency supply and inflation. As such the mid-term projects a significant decline in the growth of the sector from 4.7% indicated in the 2020 national budget down to -4.1%.

It is of great concern that the ministry responsible for the sector, industry and commerce, has recorded budget utilisation of 23% amid the aforementioned challenges that the sector is currently experiencing. Possibly, this is impacting the performance of the manufacturing industry among other factors.

Health Sector

In response to COVID-19, the Midterm Budget Review has indicated that the government unfreeze 4 713 posts with a view to scaling up the response to the COVID-19 pandemic. According to the review, this was made possible by reprioritisation of resources where the government redirected capital expenditure allocations under the 2020 National Budget towards health-related expenditures. It is not indicated on how much was reprioritised and the plans to close the funding gap which has been created. There is another misrepresentation of facts where the government reported that more resources have been channelled towards health but the budget utilisation for health stands at 39% of the original budget.

The review did not explicitly outline measures put in place to address the issues of industrial actions by health personnel owing to shortage of PPEs and poor working conditions.

Education Sector

The Ministry of Primary and Secondary Education has utilised 37% of its original budget allocation mainly due to the closure of schools brought about by the COVID-19 induced national lockdown. The education sector growth projection has been revised from 3.7% enunciated in the 2020 national budget to -7.2% by the end of 2020. The mid-term review did not explicitly highlighted measures to ensure wide coverage of e-learning facilities in the wake of the COVID-19 restrictions. Failure to address this may erode the gains realised in the education sector.

Social Protection Portfolio

During the period January to June, total social protection expenditure amounted to ZWL\$902.2 million against targeted expenditure of ZWL\$1.253 billion. The distribution of major expenditures among other social interventions were as follows:

Social Safety Net	Allocation (ZWL)	%	Comments
Drought Relief	412.2m	46	This is against a background that 58% of people in rural areas of Zimbabwe require drought relief. ² An estimated of 2.2 million people in urban areas also require the same assistance. ³ In view of this, it is clear that majority of people are still in need of the assistance.
BEAM	150m	17	The programme has paid for 415 000 children only against an estimated total number of 1.6million ⁴ orphans in Zimbabwe. This implies that the programme has assisted about 26% of children in need.
Support to PWDs	7.1m	0.7	This is insignificant considering the estimated number of PWDs in Zimbabwe of close to 1million (7% of the total population in Zimbabwe ⁵
Vulnerable children	5.1m	0.6	The allocation is very low considering the findings from the vulnerability assessment report commissioned by ZimVAC 2020 which revealed that 2.6 million children in rural Zimbabwe are projected to urgently require humanitarian assistance

Source: 2020 Medium Term Budget Review

Recommendations

Policy recommendations to the government include:

- Timely implementation of bold measures with better policy coordination, that is, ensuring that there is policy consistency in budget execution through alignment of action plans to the national budget.
- Transparency and accountability to ensure restoration of confidence and rebuilding of trust. Without public trust, it will be extremely difficult to realise the aspirations of the TSP.
- Simultaneous adjustment of the fiscal policy framework towards strengthening manufacturing sector capacity utilization.
- Synchronisation of monetary and fiscal policies to safeguard against the prevailing macroeconomic distortions fuelled by the policy inconsistencies and incoherency.
- Transparency and accountability in the utilisation of COVID-19 response resources.
- Timely disbursement and utilisation of funds to ministries in order to ensure improved service delivery.

[2] Zimbabwe Vulnerability Assessment Committee (ZimVAC) Food and Nutrition Security Update Report, February 2020

[3] UNFPA Food Security Report 2020

[4] SOS Children's Village International – Zimbabwe 2020

[5] <https://www.unicef.org/zimbabwe/disabilities> accessed on 17 July 2020

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