**NATIONAL ECONOMIC CONSULTATIVE FORUM**

# 2024 MID-TERM BUDGET AND ECONOMIC REVIEW SYNOPSIS

## 1.0 INTRODUCTION

1.1 On 25 July 2024, the Minister of Finance Economic Development and Investment Promotion (MOFED&IP), Hon. Prof. M. Ncube presented the 2024 Mid-Term Budget and Economic Review under the theme "Consolidating Economic Transformation".

1.2 The Review Statement provides an update on fiscal and economic developments during the first six months of the year, as well as progress on the implementation of the 2024 National Budget. In addition, the Review provides the macro-fiscal economic outlook to year end and proposes measures to support the current economic stability being experienced.

## 2.0 KEY HIGHLIGHTS

2.1 The country's economic growth has been revised downwards to 2% in 2024 from the 2024 National Budget projection of 3.5% on the back of more severe than expected impact of the El-Nino induced drought on agricultural output. However, the projection could be further revised upwards due to a higher-than-expected wheat output during the 2024 winter season.

2.2 Inflationary pressures are expected to remain subdued due to tight monetary and fiscal policies being pursued by the Reserve Bank of Zimbabwe (RBZ) and the Ministry of Finance, Economic Development and Investment Promotion (MOFED&IP) aided by the dissipating negative inflation expectations as the local currency unit remains stable against major currencies.

2.3 Broad money stock increased by 5.9% to reach ZiG41 billion at the end of May 2024 from ZiG38.8 billion recorded at the end of April 2024.

2.4 The country recorded a current account surplus of US$19.2 million in the first half of 2024 compared to a deficit of US$13.8 million recorded during the same period in 2023. The surplus is mainly attributed to an improvement of foreign currency receipts which increased by 9.5% to US$6.2 billion during the first half of 2024 up from US$ 5.6 billion recorded in 2023. Foreign currency receipts were largely driven by the growth in export receipts, mainly from gold, agriculture commodities and manufactured products, as well as diaspora remittances. However, by year end, the current account surplus is projected to narrow to US$44.5 million in 2024, relative to a surplus of US$133.9 million registered in 2023.

2.5 Regarding public finance developments, due to the introduction of the ZiG as a legal tender on 5 April 2024 , the approved expenditure for the 2024 Budget stood at ZiG87.9 billion from Z$58.2 trillion. In terms of performance, revenue collections amounted to ZiG36.5 billion, against expenditures of ZiG38.9 billion during the first half of 2024. This translated to a financing gap of ZiG2.4 billion which was financed through mobilisation of resources on the domestic debt market. To this end, total gross Treasury Bills (TB) issuance, for budget financing for the period January to June 2024 amounted to ZiG2.3 billion. Expenditures are approximately 44.2% of the total approved Budget.

2.6 The projects and programmes supported during the first half of 2024 include human capital development, health, education, social protection, women, gender and SMEs, infrastructure (transport, energy, water and sanitation, housing delivery, and ICT and digital economy), and inter-governmental fiscal transfers (devolution).

2.7 In terms of outlook to year end, revenue is projected at ZiG93.2 billion (22% of GDP), against expenditures of ZiG96.8 billion and a resultant deficit of ZiG5.6 billion (1.3% of GDP).

2.8 In terms of public debt, the country's stock of debt as at end of June 2024 amounted to ZiG287.2 billion, comprising of external debt of ZiG168.5 billion and domestic debt of ZiG118.7 billion. The debt stock is broken down as 58.7% external debt and the remainder being domestic debt at 41.3%.

2.9 Regarding outlook to year end, the fiscal policy thrust, and macro-fiscal framework of the approved 2024 National Budget remains unchanged under the theme *"Consolidating Economic Transformation".* The major risk to the country's growth prospects to year end is the impact of the drought on food security and the unavailability of water.

2.10 The following tax measures have been introduced to support the ZiG and fine-tuning of the existing tax policies to enhance their effectiveness:

1. **Presumptive Tax**: reviewed downwards to provide relief and enhance tax compliance and payable in local currency, regardless of currency of trade.
2. **Excise Duty on Electronic Cigarettes**: introduced *Excise Duty* at the rate of US$0.5 per ml of contents of every electronic cigarette product to curb the negative externalities associated with the consumption of electronic cigarettes.
3. **Corporate Income Tax**: any corporate whose revenue exceeds 50% in foreign currency to account for *Corporate Income Tax* on a 50:50 basis.

Furthermore, where a company's revenue exceeds 50% in local currency, tax shall be payable proportionately in the currency of trade thereof.

4. **Foreign Currency Dutiable Products**: payment of customs duty in local currency on selected products.
5. **Payment of User Fees in Local Currency**: all user fees for Government services shall exclusively be payable in local currency unless, specifically provided otherwise.

2.11 The following tax relief measures have been introduced:

1. **Value Added Tax on Livestock and Meat*:*** live cattle, pigs, goats, sheep, bovine semen, poultry meat and kapenta have been exempted from VAT to encourage formal trade and restore demand of meat products. This follows the recent decline in demand for livestock and meat due to low disposable income attributable to El Nino induced drought and increased informalisation.
2. ***Special Surtax on Beverages Sugar Content:*** Special Surtax on Beverages Sugar Content payable for the period 1 January 2024, to 8 February 2024 has been waived to provide relief to some businesses.

2.12 The following tax administration measures have been introduced:

1. **Transit Fraud**: payment of duty at the port of entry on fuel imported under Removal in Transit Facility effective from 01 August 2024. Such duty and levies shall be recovered on acquittal at the port of exit. This measure is on the back of curbing transit fraud which is on a rise despite the introduction of the Electronic Cargo Tracking System in 2017.
2. **Fiscalisation of Domestic Fuel Sales**: introduction of mandatory fiscalisation of domestic fuel sales, with effect from 01 November 2024 to counter the speculative opportunity by operators to under-declare fuel imports, as well as abuse of the removal in transit facility.

2.13 On legislative amendments, the following was introduced:

1. **Reserved Sectors**: in line with the Indigenisation and Empowerment Act that provides for a specific list of business operations that are reserved for Zimbabweans, legislation has been amended to provide for additional sectors which include haulage and logistics, customs clearing, shipping & forwarding, borehole drilling, brick manufacturing and pharmaceutical retailing.

## 3.0 NECF VIEWS AND RECOMMENDATIONS

3.1 The 2024 Mid-Term Budget and Economic Review and fiscal policy measures therein are a welcome development towards propelling the country towards ensuring macroeconomic stability and resultant attainment of National Development Strategy 1 (NDS1) and Vision 2030 aspirations of becoming an upper middle-income society.

3.2 The measures to enhance the stability of the ZiG are highly welcome. Surely, no economy can grow and develop without its own currency as theoretical and empirical literature suggests that the long-term economic growth and stability of a nation are better served with its own currency as adoption of foreign currency can only provide short-term stability.

3.3 The introduction of excise duty on electronic cigarettes is a welcome development and demonstrates the country's commitment towards tobacco control. This bodes well with the country's position as it prepares for the World Health Organization Framework Convention on Tobacco Control (WHO FCTC) 11th Conference of Parties (COP11) and WHO Illicit Trade Protocol (ITP) 4th Meeting of Parties (MOP4) scheduled for November 2025.

3.4 The disbursement towards social protection is critical to mitigate severe impact of the El Nino induced drought. Going forward there is need for strengthening agricultural sector resilience through developing and implementing comprehensive climate-resilient agriculture measures that includes drought-resistant crops, and efficient irrigation systems. This will go a long way towards improving the country's growth prospects. According to the World Bank studies from other countries such as India and Brazil, investment in resilient agricultural practices significantly improves productivity and food security.

3.5 The improvement in foreign currency receipts shows strong reliance on agriculture, gold, and diaspora remittances suggesting the need for broader economic diversification. Thus, there is need to initiate policies to develop and support sectors such as manufacturing, tourism, and ICT through targeted investments and incentives. This will go a long way in improving the country's current account prospects which are projected to narrow towards the end of 2024.

3.6 The high level of public debt, especially the substantial external debt, indicates the need for the country to improve on debt management strategies. The Debt Overhang Theory suggests that high levels of debt can stifle economic growth and investment (Krugman, 1988). Also, successful debt management strategies in countries like Ghana and Argentina have led to improved fiscal health and economic stability (World Bank, 2020). The country should, therefore, press on with the engagement and re-engagement drive including the Arrears Clearance and Debt Resolution Process under the assistance of the African Development Bank.

3.7 The financing budget deficits through domestic resource mobilization moving away from quasi-fiscal operations, is commendable. Going forward, there is need to ensure that there is effective debt management, productive use of borrowed funds, strong institutional frameworks, and a stable macroeconomic environment. Risks of high-interest costs, crowding out, and inflationary pressures should be carefully monitored and mitigated to enhance the sustainability of the domestic debt financing strategy.

3.8 The presumptive tax revision is a step forward, however there is need to complement the policy through implementing more strategies to bring the informal sector into the tax net. For instance, there is need to provide incentives for registration and compliance, coupled with robust enforcement mechanisms. This will boost the country's tax revenue base. Enhanced tax compliance initiatives in Kenya and South Africa have significantly increased government revenues and reduced tax evasion (OECD, 2021).

3.9 Whilst the introduction of tax on fuel in transit is a welcome move, there is need for working out an implementation modality that does not burden the shipping company/transporter particularly on acquittal and refunding at the port of exit. If not implemented well, this may lead to delays at the border and work against trade facilitation arrangements and protocols. This may also lead to route diversion by many fuel transporters as they seek to avoid Zimbabwe land space and thus leading to the country losing revenue from the transit corridors.

**NECF Secretariat, 2024**

## References


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