



ZIMBABWE

THE 2022 MID-TERM BUDGET AND ECONOMIC REVIEW & SUPPLEMENTARY BUDGET SPEECH

Presented to the Parliament of Zimbabwe

On 28 July 2022

By

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MOTION

1. Mr Speaker Sir, I move that leave be granted to present the 2022 Mid-Term Budget and Economic Review.
2. The Review provides an update on the performance of the economy and the 2022 Budget implementation progress during the first half of the year.
3. Taking into account developments during the first half of the year, I am also tabling the 2022 Supplementary Estimates of Expenditure before this August House in compliance with section 7(2)(a) of the Public Finance Management Act and section 9 of the Public Finance Management (General) Regulations of 2019.

INTRODUCTION

4. Before I proceed with my presentation, Mr Speaker Sir, let me express my gratitude to His Excellency, the President E. D. Mnangagwa for the guidance I received during implementation of the 2022 National Budget as well as the formulation of the Mid-Term Budget and Economic Review and Supplementary Budget.

5. I also recognise the support from the Honourable Vice President, Dr. C. G. D. N. Chiwenga, fellow Cabinet Ministers, line Ministries, Departments and Agencies, including members of this august House, as well as other stakeholders for their valuable input into the formulation of the Statement.

ECONOMIC DEVELOPMENTS DURING THE FIRST HALF OF THE YEAR

6. The domestic economic situation continues to be impacted by the COVID-19 pandemic, compounded by the recent global tensions, with spill overs being felt through fuel, food and fertilizers price increases and shortages globally. **(SLIDE 1)**
7. The attendant spill over effects have changed the economic outlook, both globally and domestically.

Global Developments and Outlook

8. Mr Speaker Sir, the above global challenges have resulted in rising commodity prices and inflation worldwide and is dampening global growth prospects.
9. As a result, the IMF has revised downwards global economic growth projections to 3.6% in April 2022, down from the initial projection of 4.9% in January 2022. **(SLIDE 2)**

10. Recovery in the Sub-Saharan region is expected to slow down to 3.8% during 2022, benefiting from high commodity prices and recovery in tourism but being weighed down by high import costs, particularly for food, fuel and fertilizer. **(SLIDE 3)**
11. Inflation has also become a central cause of concern worldwide, reaching its highest level in more than 40 years for some advanced economies, particularly for the United States and some European countries. **(SLIDE 4)**

Domestic Economic Performance

12. Mr Speaker Sir, the domestic economy has not been insulated from the global developments, particularly from rising commodity prices and inflation as well as disruptions on supply chains.
13. As a result, domestic economic growth for the year 2022 has been revised downwards from the 5.5% initially projected to 4.6%, reflecting the impact of the external global environment as well as our own unique circumstances. **(SLIDE 5)**
14. Growth has also been weighed down by reduced output from the 2021/22 Agriculture season, while other productive sectors are still projected to register positive growth.

15. Notwithstanding the global and domestic shocks, the country continues to record positive economic growth, increase in foreign currency receipts, near balanced budget as well as increasing capacity utilisation of the manufacturing sector.
16. The depreciation of the local currency and rising inflation, however, remain a challenge that Government has committed to tackle going forward.

Inflation Developments

17. Mr. Speaker Sir, inflationary pressures experienced during the first half of 2022 saw headline inflation steadily accelerating from 60.7% in January to 191.6% in June 2022. **(SLIDE 6)**
18. This has been driven partly by external factors which impacted negatively on import prices of raw materials, food and liquid fuels.
19. Imported inflation contributed significantly to domestic inflation through cost push factors, whilst domestically, adverse inflationary pressures and exchange rate volatility were the main drivers of inflation.
20. In response, Government has since introduced a raft of measures, meant to instil confidence, strengthen demand for local currency and foster market discipline to contain inflation.

21. Mr Speaker Sir, let me assure the nation that Government is ready to implement further measures necessary in order to restore economic stability.

Monetary Developments

22. Mr Speaker Sir, the Central Bank has maintained a tight monetary stance to control inflationary and exchange rate pressures.
23. Reserve money stock has increased to ZWL\$33.6 billion as at 30th June 2022, largely due to growth in statutory reserves in line with the thrust of tightening monetary policy. **(SLIDE 7)**
24. As at end-June 2022, more than 80% of the stock of reserve money was in the form of statutory reserves, while currency issued by the Bank and banks' liquidity at the RBZ (RTGS balances) constituted the balance.

Broad Money Developments

25. However, broad money registered a growth of 245% in May 2022, largely driven by exchange rate depreciation, accounting for over 50% of the increase.

26. The annual growth in broad money was largely driven by increases of 316.9% and 286% in credit to the private sector and net claims on Government, respectively.
27. Credit to Government, however, is merely an accounting treatment of the drawdowns on the Special Drawing Rights (SDR) reserves by Government, and does not represent actual lending to the Government.

Introduction of Gold Coins as a Store of Value

28. Mr Speaker Sir, Government has introduced an instrument that enables investors to store value in both local and foreign currency, through the gold coins minted by Fidelity Gold Refineries.
29. The gold coins are tradable, highly liquid and can be used as collateral security.
30. Members of the public have been given an option to physically own them or to keep them in safe custody with their bankers. The price of the gold coins will be determined by the prevailing international price of gold.

Balance of Payments

31. Mr Speaker Sir, merchandise exports and imports increased by 33% and 15% to US\$3 516.5 million and US\$3 746.8 million, respectively, during the first half of 2022, compared to the same period in 2021.
32. To year end, exports are expected to reach US\$7.3 billion, spurred by increases in mineral receipts benefitting from the mineral commodity price boom, as well as increases in agriculture and manufactured exports.
33. Similarly, merchandise imports are also projected to reach US\$8.1 billion driven by fuel, machinery and raw material imports.
34. As a result, the country's balance of payments remains favourable with a current surplus of US\$387.1 million having been registered during the first half of 2022.
35. The positive current account performance is envisaged to continue for the remainder of the year to close at US\$366.3 million on the back of strong export performance and resilient remittance inflows. **(SLIDE 8)**

Public Finances Developments

36. Mr Speaker Sir, the 2022 National Budget was premised on revenue collections of ZWL\$850.8 billion (16.8% of GDP), expenditures of ZWL\$968.3 billion and a target budget deficit of ZWL\$76.5 billion (1.5% of GDP).
37. Unaudited outturn during the first half indicates revenue collections of ZWL\$506.6 billion, **(SLIDES 9 and 10)** against expenditures of ZWL\$534.5 billion, **(SLIDE 11)** resulting in a budget deficit of ZWL\$27.9 billion, against a target deficit of ZWL\$45 billion.
38. Development partners also complemented fiscal resources with an amount of US\$190 million having been disbursed towards various projects and programmes. Of this amount, bilateral partners contributed US\$164 million, whilst the remainder came from the multilateral partners. **(SLIDE 12)**

Public Debt

39. Mr Speaker Sir, as at end of June 2022, public and publicly guaranteed debt stood at ZWL\$1.3 trillion **(SLIDE 13)** and US\$13.2 billion, **(SLIDE 14)** comprised of domestic and external debt, respectively.

Arrears Clearance and Re-engagement

40. The country's external debt continues to burden the economy by restricting access to low cost, long-term financing required to support the desired medium to long term growth trajectory.
41. To address this challenge, Government has developed the Arrears Clearance, Debt Relief and Restructuring (ACDRR) Strategy aimed at restoring debt sustainability.
42. In line with the ACDRR Strategy roadmap, Government will soon host a High-Level Debt Resolution Forum with Development Partners and other stakeholders aimed at building consensus among all stakeholders on the process and procedures of resolving the country's external debt overhang and arrears clearance.
43. The African Development Bank's President, Dr. A. Adesina has agreed to be the country's Champion for the Debt Resolution and Re-engagement process. In his capacity as Champion, he will coordinate and chair the forthcoming High-Level Debt Resolution Forum.

Budget Transparency Performance

44. Mr Speaker Sir, the country is doing well in terms of budget transparency and is now ranked 3 in Africa, after South Africa

and Benin. Globally, the country is ranked 41 out of 120 countries according to the International Budget Partnership (IBP) latest Report. **(SLIDE 15)**

45. Going forward, Government will continue to improve in all the three pillars of transparency, accountability and participation as part of our commitment of leaving no one and no place behind in terms of public financial management.

SUPPLEMENTARY BUDGET

46. Mr Speaker Sir, fiscal developments during the first half of the year, characterised by increasing revenues and expenditure pressures, have necessitated the revision of the approved 2022 National Budget.
47. The revision is necessary to allow spending agencies meet increasing costs of undertaking originally budgeted programmes and projects that will ensure the 2022 objectives are met.
48. Revenue collections to year end are now projected at ZWL\$1.7 trillion, **(SLIDE 16)** while expenditures are now estimated at ZWL\$1.9 trillion **(SLIDE 17)**. This is against the approved Budget of ZWL\$968.3 billion, entailing additional spending of ZWL\$929 billion.

49. Consistent with section 305(5) of the Constitution, the additional expenditures largely financed by expected additional revenues require approval of Parliament through a Supplementary Budget.
50. The additional expenditures will go towards the following areas: **(SLIDE 18)**

Revised Projected Expenditures to Year End (ZWL\$M)

	2022 Approved Budget	Additional Required Resources	Projection to Year End	Share of the Supplementary
Total Expenditure & Net Lending	968,268.50	929,253.50	1,897,522.00	
Compensation of Employees	340,000.00	492,795.00	832,795.00	53%
Use of goods and services	237,565.80	163,072.20	400,638.00	18%
Social Benefits	35,908.10	61,804.40	97,712.50	7%
Financial and Non-Financial Assets	334,700.00	172,556.00	507,256.00	19%
Memorandum				
Constitutional & Statutory Obligations				
Debt Service: Interest Bill	14,367.00	3,000.00	17,367.00	
Pension	47,641.50	62,628.91	110,270.41	
Transfers to Provincial Councils and Local Authorities	42,539.00	10,000.00	52,539.00	
Constitutional & Statutory Salaries	4,960.29	2,149.79	7,110.08	

51. Mr Speaker Sir, the bulk of the Supplementary Budget (53%) is going towards employment costs to cushion public servants against increasing cost of living. The balance of the additional resources are going towards meeting Government consumables (18%), capital projects (19%) and social benefits (7%).

52. Government remains committed to addressing the welfare of civil servants in a fiscally sustainable manner. The challenges of yester-year where the wage bill crowded out other development expenditures should be avoided in order to create the right conditions for sustainable economic growth that will provide scope for payment of decent salaries to our hard-working workers.
53. We are stepping up provision of non-monetary incentives to improve their welfare.
54. The additional resources are being distributed to Line Ministries as follows: **(SLIDE 19)**

Vote Allocations (ZWL\$m)

Vote Appropriations	2022 Orig Budget	Add Estimates	Rev 2022 Budget
Office of the President and Cabinet	32,391.20	47,155.60	79,765.00
Parliament of Zimbabwe	14,615.10	2,800.70	17,415.80
Public Service, Labour and Social Welfare	19,477.30	34,897.40	54,374.80
Defence and War Veterans	61,553.30	71,515.60	133,068.90
Finance and Economic Development	64,573.60	127,673.70	176,617.50
Audit Office	3,014.10	1,059.60	4,073.70
Industry and Commerce	3,879.50	1,662.50	5,542.10
Lands, Agriculture, Fisheries, Water and Rural Development	124,049.10	100,672.00	231,819.00
Mines & Mining Development	3,020.90	1,582.50	4,603.50
Environment, Tourism and Hospitality Industry	3,711.40	3,624.60	7,335.90
Transport and Infrastructural Development	60,802.50	46,507.40	107,309.90
Foreign Affairs and International Trade	14,877.30	3,848.00	18,725.30
Local Government and Public Works	24,315.30	12,743.40	37,058.70
Health and Child Care	117,714.20	62,210.50	179,924.70
Primary and Secondary Education	124,070.00	103,924.50	228,994.50

Vote Appropriations	2022 Orig Budget	Add Estimates	Rev 2022 Budget
Higher & Tertiary Education, Science and Technology Development	35,774.20	35,036.10	70,810.40
Women Affairs, Community, Small and Medium Enterprises Development	4,734.50	3,139.00	7,873.50
Home Affairs and Cultural Heritage	49,417.60	61,077.10	115,493.70
Justice, Legal and Parliamentary Affairs	22,705.10	18,187.10	40,892.20
Information, Publicity and Broadcasting Services	2,652.70	1,012.80	3,665.50
Youth, Sport, Arts and Recreation	7,844.10	3,788.60	11,632.60
Energy and Power Development	3,553.90	2,369.70	8,183.60
Information Communication Technology and Courier Services	3,294.60	4,793.70	8,088.20
National Housing and Social Amenities	10,061.50	6,894.70	16,956.20
Judicial Services Commission	5,445.80	3,083.00	8,583.60
Public Service Commission	16,024.00	48,800.00	64,824.00
Council of Chiefs	671.00	500.00	1,171.00
Human Rights Commission	403.90	527.40	931.30
National Peace and Reconciliation Commission	441.30	390.40	831.70
National Prosecuting Authority	1,629.30	1,518.30	3,147.50
Zimbabwe Anti-Corruption Commission	913.70	351.40	1,265.10
Zimbabwe Electoral Commission	11,632.80	32,693.50	44,326.30
Zimbabwe Gender Commission	497.60	507.30	1,004.90
Zimbabwe Land Commission	1,759.30	4,688.40	6,447.70
Zimbabwe Media Commission	511.00	238.20	749.20
Sub-Total Budget	968,268.50	851,474.80	1,897,522.00
Constitutional and Statutory Budget			
Debt Service: Interest Bill	14,367.0	3,000.0	17,367.0
Pension	47,641.5	62,628.9	110,270.4
Transfers to Provincial Councils and Local Authorities	42,539.0	10,000.0	52,539.0
Other Constitutional & Statutory Appropriations	4,960.3	2,149.8	7,110.1
TOTAL EXPENDITURE & NET LENDING	968,268.5	929,253.5	1,897,522.0

55. With the revised 2022 National Budget, Ministries of Lands, Agriculture, Fisheries, Water and Rural Development and Primary and Secondary Education top the list with an additional ZWL\$100.7 billion and ZWL\$103.9 billion, respectively.

56. On agriculture, the resources are earmarked for grain procurement, preparations for the forthcoming season and dam construction.
57. For the rest of the Votes, the additional funding is meant to meet increased operational costs, the wage bill and identified projects and programmes.

Revenue Measures

58. Mr Speaker Sir, I now turn to revenue measures.
59. Mr Speaker Sir, the revenue measures that I am proposing seek to enhance revenue to the Fiscus, provide relief to taxpayers, as well as strengthen tax administration.
60. May I, thus, highlight some of the measures that I am proposing.

Revenue Enhancing Measures

Platinum Royalty Rate

61. Mr. Speaker Sir, despite the significant contribution to output and export receipts, the mining sector contributed about 1.2% of GDP in direct taxes to the Fiscus in 2021. This is a significant contrast to countries in sub-Saharan Africa which averaged 2% during the same period.

62. Low fiscal receipts are attributed in part to a generous royalty regime on some major minerals. A case in point is the royalty rate on platinum, which was reduced from 10 percent in 2015 to 2.5 percent in conformity with a court judgement. The reduced rate was subsequently aligned across all platinum producers.
63. Compared to revenues accruing from mining activities and rates charged on other precious minerals and metals such as gold, the royalty rate on platinum is sub-optimum. For example, royalty rates on gold range from 3 to 5 percent, depending on the international commodity price.
64. Mindful of the fact that the tax regime is the main instrument for sharing benefits from finite minerals and also provides an important source of Government revenue, it is necessary to maximise revenue to the Fiscus.
65. A royalty rate of 5%, which is in line with other platinum producing countries in Africa, is proposed effective 1 January 2023.
66. The royalty rate of 5% will also apply on lithium with effect from 1 January 2023.

Tax Relief Measures

Pay As You Earn

67. Mr. Speaker Sir, the *Tax-Free Threshold* was increased to ZWL\$300,000 or USD1,200 per annum for remuneration earned in local and foreign currency, respectively, with effect from 1 January 2022.
68. Adjustments to wages and salaries in response to macroeconomic developments have resulted in bracket creep on local currency denominated remuneration.
69. I, therefore, propose to review the *Tax-Free Threshold* on local currency remuneration from ZWL\$300,000 to ZWL\$600,000 per annum and also adjust the tax bands to end at ZWL\$12 million from the current ZWL\$6,000,000 per annum, above which tax will be levied at a rate of 40 percent, with effect from 1 August 2022.
70. This measure is envisaged to increase disposable income, spur consumption spending and income for corporates.

Bonus Tax Free Threshold

71. I also propose to review the local currency tax-free bonus threshold from ZWL\$100,000 to ZWL\$500,000, with effect from 1 November 2022.

Rebate of Duty on Equipment for Scientific Research

72. Mr. Speaker Sir, innovation and research are pillars towards sustainable development and industrialisation. The education and training system in Zimbabwe is now geared towards this initiative.
73. In that regard, it is important that local research institutions be capacitated through infrastructure that promotes knowledge, which is adaptive and resilient to common and emerging threats such as climate change, infectious diseases and drug resistance, among others.
74. I, therefore, propose to introduce a Rebate of Duty on equipment for use in scientific research imported by institutions approved by Ministries responsible for Health, Mining, Agriculture and Higher and Tertiary Education.

Legislative Amendments

Value Added Tax: Input Tax

75. Mr. Speaker Sir, current legislation permits businesses to trade in either local or foreign currency. Consistent with this legislative provision, VAT registered operators are compelled to account for tax in the currency of trade.

76. In order to assess the amount of VAT payable or refundable, output tax should be offset against input tax incurred in the same currency. This, however, creates an administrative burden for some VAT registered operators whose sales and purchases are transacted in different currencies. This is particularly common on foreign currency sales of imported goods and services that are liable to import VAT in local currency.
77. I, therefore, propose to provide VAT registered operators with the option to pay duty in foreign currency to facilitate offsetting of output and input tax in the same currency.

CONCLUSION

78. Mr. Speaker Sir, the global developments and their impact on the domestic economy remind us on the need to upscale domestic production of goods and services in order to increase production and exports as well as reduce the import bill.
79. The evidence of resilience anchored on strong economic fundamentals such as enhanced capacity to generate adequate foreign currency, decent economic growth, sustainable budget deficits and current account surplus need to be sustained.

80. The resilience is as result of sustained economic transformation ushered in by the New Dispensation in the form of sound fiscal and monetary policies, increased investment in infrastructure and other productive sectors, governance reforms, ease of doing business reforms and the engagement and re-engagement drive.
81. The depreciation of the local currency and rising inflation is a challenge that Government is tackling and hence, require the support of all stakeholders and citizens.
82. I finally commend the 2022 Mid Term Budget and Economic Review and Supplementary Estimates of Expenditure to this August House.

Hon. Prof. M. Ncube

Minister of Finance and Economic Development

28 July 2022

