2024 Mid-Term Budget Review and Analysis

+263 772 419 693 • +263 772 152 647 •
220 or 080 800 25/6 (For Econet Subscribers Only)
help@fbc.co.zw
+263 242 704481/2 • 761198 • 756685 • 754232 • 756012
FBC.Help.Centre

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Introduction

- On July 25, 2024, the Minister of Finance, Economic Development and Investment Promotion presented the 2024 Mid-Term Budget and Economic Review Statement themed Consolidated Economic Transformation.

- This analytical report is prepared in response to the Policy Measures highlighted in the Statement. The purpose of this report is to provide an objective analysis and assessment of the potential implications and impacts of the aforementioned policy measures.

Scope and Limitations

- The analysis presented in this report is based on the information available up to the date of publication. Any subsequent developments or modifications to the policy may not be reflected in this document. The findings and recommendations are contingent upon the accuracy and completeness of the data and information used in the analysis. Any changes or inaccuracies in the underlying data may affect the validity of the conclusions drawn.

Assumptions

- The analysis involves certain assumptions about the interpretation and implementation of the policy. Any deviation from these assumptions may alter the outcomes outlined in this report. The report assumes that the measures will be implemented as stated, and any amendments or revisions may impact the accuracy of the analysis.

External factors

- External factors including, but not limited to economic conditions, geopolitical events, and unforeseen circumstances, may influence the outcomes presented in this report. The report does not account for events beyond the control of the organization ("FBCH"), which may impact the overall success or effectiveness of the policy.

Future Changes

- The policy landscape is dynamic, and changes may occur in response to feedback, public opinion, or evolving circumstances. Future modifications to the policy may necessitate a re-evaluation of the conclusions presented in this report.

Expertise and Consultation

- This report is based on the expertise of the analysts involved and the information available at the time of preparation. External consultations and expert opinions may provide additional insights not covered in this document.

- The report is intended for informational purposes only and does not constitute legal, financial, or professional advice. FBCH disclaims any liability for actions taken based on the contents of this report.

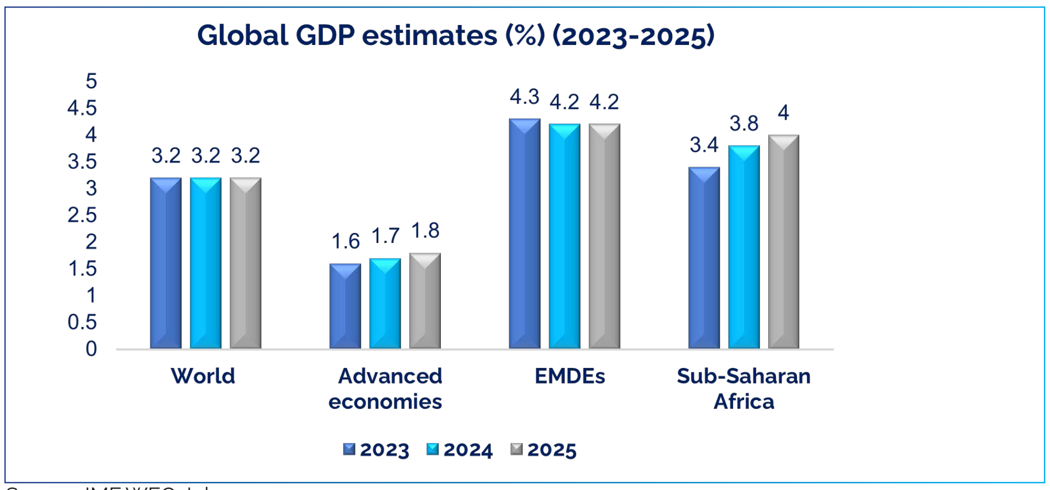
Global Economic Overview

- The global economy continues to navigate a path of cautious optimism in 2024. Growth projections remain modest, with the International Monetary Fund ("IMF") in its April 2024 WEO report forecasting 3.2% in 2024 and 2025.

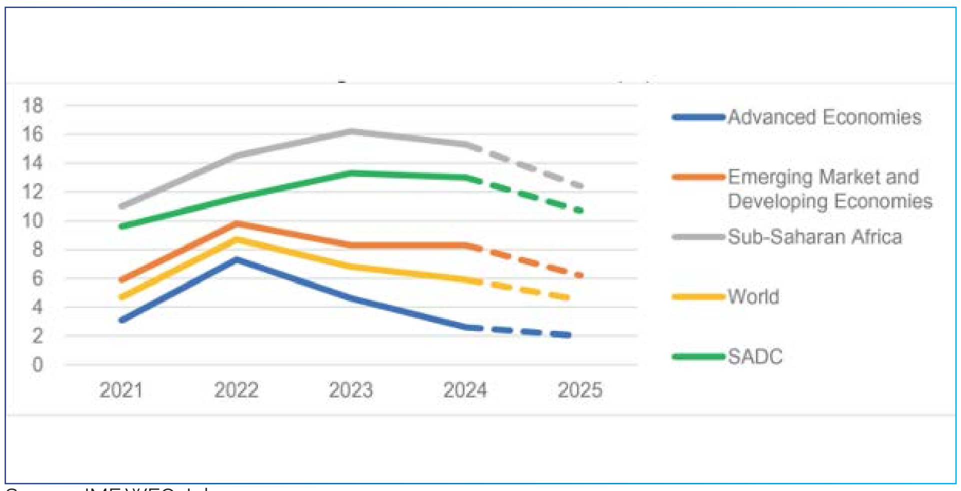
- The projection is slightly higher than its October 2023 projection of 2.9% on account of anticipated higher economic activity in advanced economies.

- Growth in emerging markets and developing economies is, however, expected to moderate to 4.2% from 4.3% in 2023 due to the long-term effects of the Covid-19 pandemic, the spill-over effects of geopolitical conflicts and depressed domestic demand in China.

- On a positive note, global headline inflation is anticipated to record a marginal decrease of 0.9% to 5.9% in 2024 from 6.8% in October 2023, with the drop being attributed to the persistent contractionary monetary policies, the softening in labour markets and pass-through effects from earlierr declines in relative prices, notably energy prices.



Source: IMF WEO July 2024



Source: IMF WEO July 2024

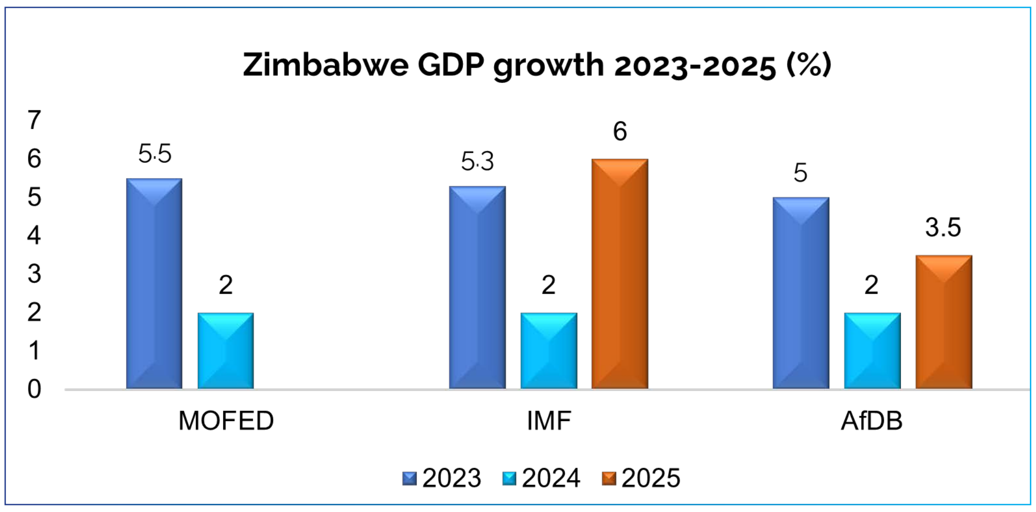
Domestic Economic Overview

- The first half of 2024 was characterized by monetary sector stability, with the ZiG losing only -0.43% against the US$. In terms of inflation, the ZWG CPI fell from 100 in April 2024 to close the month of June 2024 at 97.38, a -2.4% change, whereas the USD CPI grew marginally by 0.53% from 105.98 in January 2024 to 106.54 by the end of June 2024.

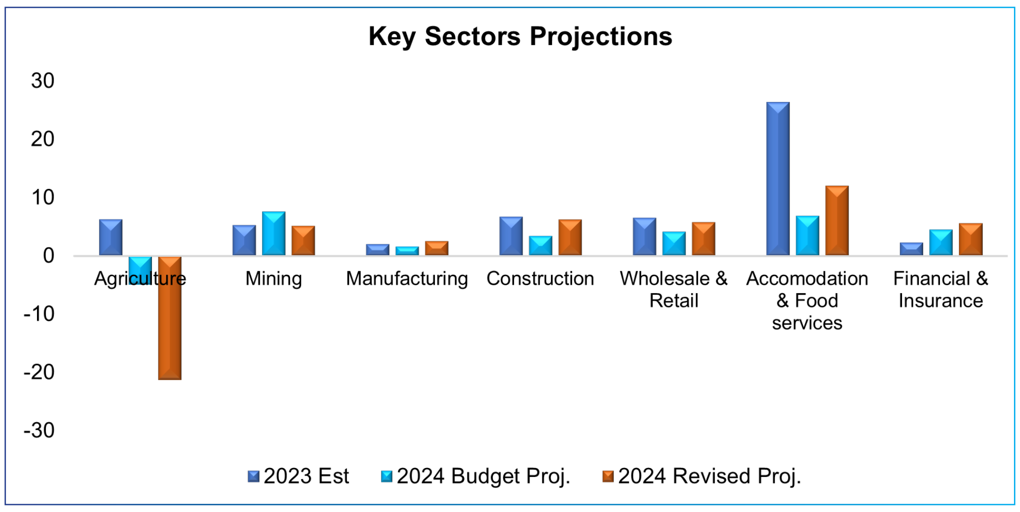
- Month on month, ZWG and USD inflation was 0.0% and -0.3% respectively in June, a testimony of stabilising prices in both currencies. However, the gains from the stability are being diluted by more weightier challenges such as high cost of borrowing, erratic power supply, acute liquidity shortages, weak commodity prices, relatively punitive taxes and spill-over effects of on-going geo-political tensions, that collectively culminated into a complex operating environment.

- Barring these setbacks, the economy has remained resilient, with an anticipated growth of 2% expected in 2024, 1.5% lower than the 2024 National Budget growth forecast of 3.5%. The downward revision is due to the severe impact of the El-Nino induced drought which depressed agriculture activity, with the sector now projected to grow by -21.2% in 2024 from a -4.9% growth projected in the 2024 National Budget.

- The revised 2024 GDP projection of 2% is based on the following assumptions:
  - Depressed global economic activity;
  - Softening international commodity prices (except for precious minerals such as gold);
  - Stable inflation and exchange rate;
  - Firm electricity production at Hwange Units 7 and 8;
  - Anticipated higher than projected wheat output which could push the GDP forecast above 2%.



Source: MOFEDIP, IMF, AFDB



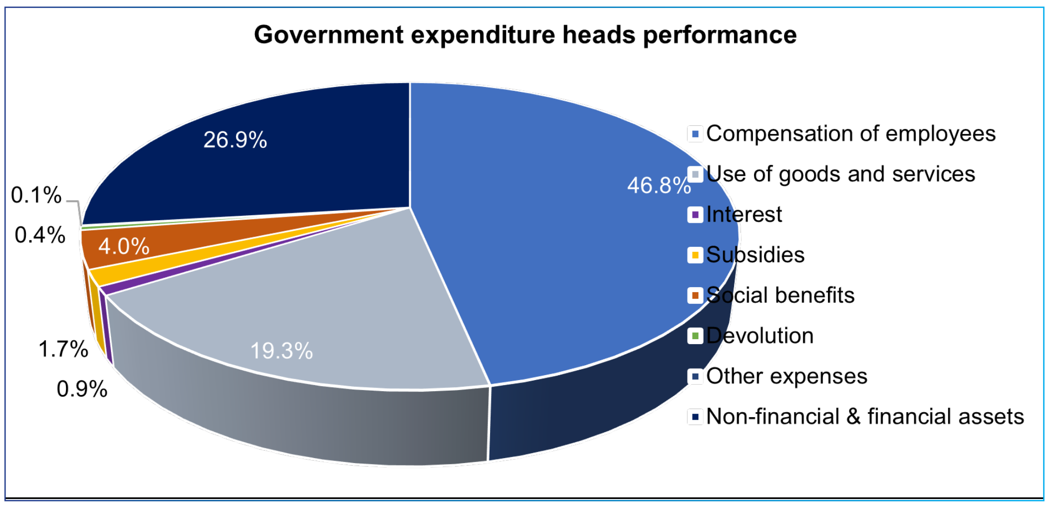
Source: MOFEDIP

Public Finance Developments

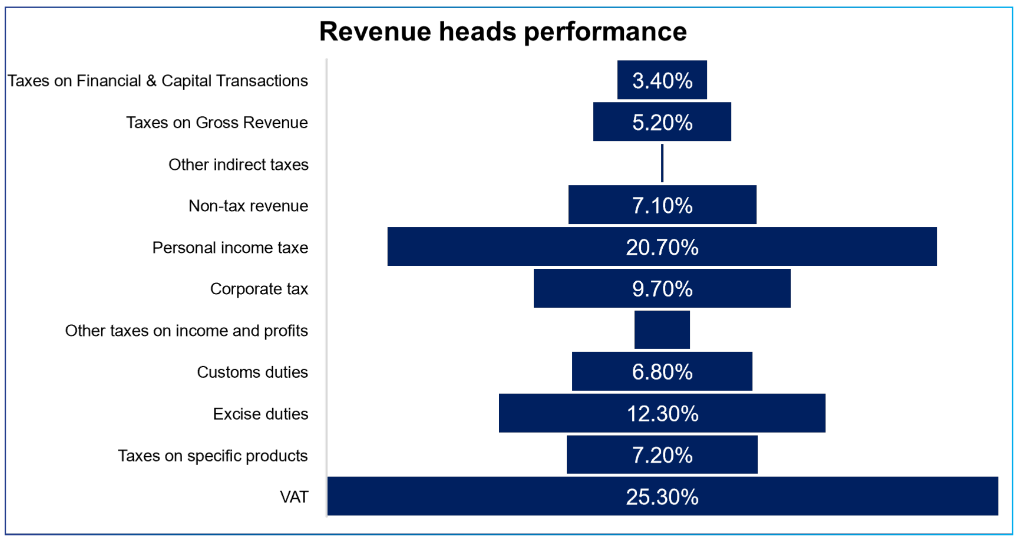
As at 30 June 2024, unaudited revenue collections amounted to ZiG 36.5 billion, against expenditure estimates of ZiG 38.9 billion, resulting in a budget deficit of ZiG 2.3 billion.

93% of the revenue was from taxes, whereas the major expenditure items were compensation of employees, use of goods and services and social benefits, at 47%, 19% and 4%, respectively.

Treasury attributes the budget deficit to difficult macro-economic environment during Q1 2024, coupled with increased debt servicing costs, as well as the transition to the new currency (ZiG), and response measures to the El-Nino induced drought.



Source: MOFEDIP, July 2024



Source: MOFEDIP, IMF, AFDB

Fiscal Performance: Jan – Jun 2024	Outturn (ZiGm)
Total Revenue	**36 534.3**
Tax Revenue	33 947.1
Non-Tax Revenue	2 587.3
Total Expenditures & Net Lending	**38 862.5**

Source: MOFEDIP, July 2024

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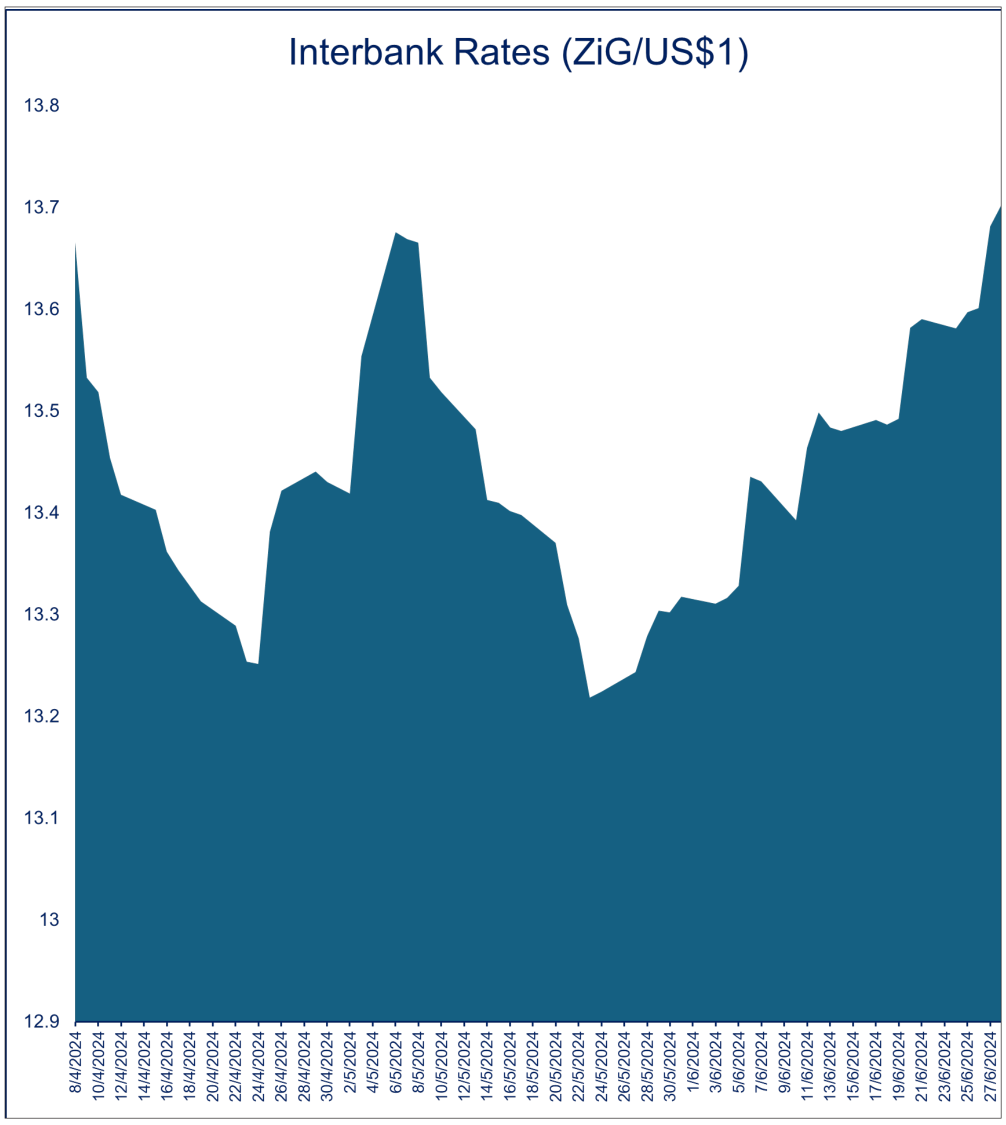
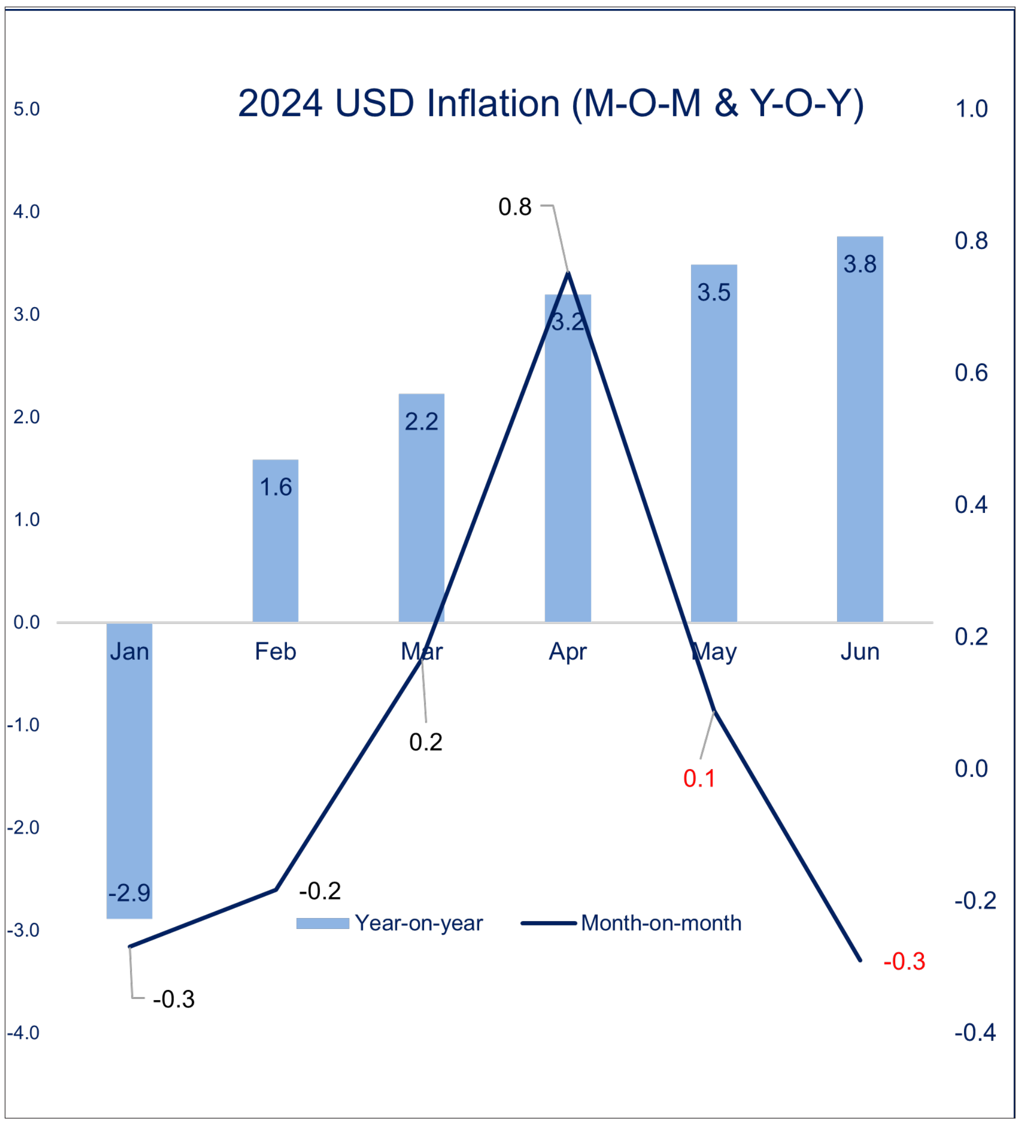
Measure	Impact
	Tax Relief Measures
VAT exemption on: • Cattle • Pigs • Goats, • Sheep's • Bovine semen • Poultry	• The measure results in lower prices of the affected food items, encouraging increased consumption. • Lower prices encourage increased demand of the affected product lines with positive pass-through effects on associated value chains.
Waiver of the Special Surtax on beverages sugar content for the period 1 January 2024 to 8 February 2024	• This is an encouraging development as it free up cashflows meant for tax purposes. • The waiver also broaden profitability positions for high sugar intensive organizations
	Monetary Policy Complementary Measures
Promoting use of local currency • If >50% of revenue is in foreign currency (Corporate Income tax ration applied is on 50:50) • If >50% of revenue is in local currency (Corporate Income tax ration is proportionate to the currency of trade) • Payment of presumptive tax in local currency • Payment of customs duty in local currency on selected finished goods • Payment of user fees in local currency	• Promoting the use of local currency in a multi-currency system can offer significant economic and national benefits, but it also comes with risks and challenges. • Local currency usage strengthens the central banks control over monetary policy, enabling better management of inflation and interest rates all things being equal. • In a context of improving trade balance, encouraging local currency use makes imports more expensive and exports cheaper, incentivising local production and industries. • Promoting local currency can foster a sense of national pride and unity, reinforcing the country's sovereignty and economic independence. **Downside Risks** • However, over-reliance on local currency use has proved to be inflationary in the past due to challenges in money supply management. • The Zimbabwean local currency has a history of instability and devaluation; promoting its use might be met with skepticism and confidence deficit from stakeholders. • The public and businesses accustomed to using the stable US dollar might resist, leading to non-compliance and augmentation of the alternative market.
Micro and Small Enterprises are now mandated to transact through a point-of-sale machine	• The measure enhances customer experience from increased payment options • More so, POS systems collects customer data enabling personalized marketing and improved customer relationship management. • However, for SMEs it introduces unbudgeted operational expenditure • The process of formalization often involves complex and time-consuming bureaucratic procedures that can be daunting and informal players turns to shun it
	Revenue Enhancing Measures
Downward review of presumptive tax on vehicles	• Lower presumptive taxes increase revenue retention and profit margins for business operations • For small and medium-sized enterprises (SMEs) or startups, lower taxes significantly enhance viability.
Graduation of Independent professionals from presumptive tax to self-assessment for Corporate Income tax	• Self-assessment allows for more strategic tax planning. Independent professionals may be able to optimize their tax situation through deductions, credits, and other planning strategies that were not available under a presumptive tax system. • However, transitioning to self-assessment often requires more detailed record-keeping and accounting. Affected parties will need to track income and expenses more rigorously to comply with self-assessment requirements. • The costs of compliance may increase as professionals need to hire accountants or tax advisors to help with accurate reporting and optimal tax laws adherence.
Introduction of excise duty on electronic cigarettes	• The health argument is timely and welcoming as the measure scale up prices of electronic cigarettes which reduces consumption among price sensitive consumers. • However, such taxes may lead to increases in smuggling or black-market activities on these products.
	Tax Administration Measures
Securing of duty and levies on fuel imported under Removal in Transit (RIT)	• Securing duties and levies aids in stabilize the fuel market through optimal regulation and smuggling prevention. • The measures also ensure collection of appropriate revenue on fuel imports • On businesses importing fuel, securing duties and levies can increase costs and these costs are usually passed on to consumers, potentially raising fuel prices. • The levy also enforces environmental and safety standards for fuel imports, ensuring overall public safety.
Mandatory fiscalisation of domestic fuel sales	• Fiscalisation reduces the likelihood of tax evasion and improve transparency in transactions. This might help in levelling the playing field by ensuring all fuel dealers adhere to similar reporting standards. • Fuel dealers may need to invest in new technology or systems to comply with fiscalisation requirements. This includes hardware for electronic reporting, software for managing transactions, and potentially training staff. • While there are initial costs, real-time reporting can streamline accounting processes and reduce the time spent on manual record-keeping. Over time, this can lead to operational efficiencies.

Measure	Impact
Review of interest rate on outstanding tax payments to plus 5%	• Higher penalties may encourage taxpayers to pay their taxes on time to avoid the additional costs associated with late payments
Route to market changes between manufacturers, wholesalers and retailers	• Direct relationships with manufacturers can lead to better inventory management and more reliable product availability. Retailers might experience fewer stockouts and better align their inventory with consumer demand. • By bypassing intermediaries, retailers can get products to market more quickly. This can be particularly advantageous for trending or seasonal items. • Retailers can have more control over product specifications, packaging, and other details when dealing directly with manufacturers. This can lead to more tailored offerings and a more customized shopping experience for consumers.

Conclusion and Outlook

- Inflationary pressures have cooled off following the recalibration of the local currency with ZWG month-on-month inflation closing June 2024 at -0.0%. Monetary authorities anticipate a single digit ZWG inflation ranging from 2%-5% by year end, whereas the IMF projects a 7% inflation for the same period, according to their recently published Article IV Mission to Zimbabwe (June 2024).
- Exchange rate volatility has reduced as the monetary authorities continue to manage local currency money supply.
- ZWG interest rates have remained in check emanating from limited demand for local currency funds. The Reserve Bank of Zimbabwe has managed to successfully issue treasury bills in local currency with satisfactory subscription levels especially for short term bills.
- However, USD interest rates have been creeping upwards on thin liquidity, increasing foreign currency demand and financial disintermediation.
- On the backdrop of limited USD liquidity, the market has started to witness elements of financial disintermediation wherein non-financial institution are also picking fixed term deposits at elevated yields compared to commercial banks.
- Minimum lending rates have also been scaling up for banks with narrow supply of demand deposits.
- Major downside risks to the outlook period include sustainability of power supply, tight liquidity situation, climate risks (erratic rainfall patterns), geo-political risks, sluggish mineral commodity price trends, and increasing informalization.





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