



## **ANALYSIS OF THE 2019 MID TERM FISCAL POLICY REVIEW**

The Minister of Finance and Economic Development, on 1 August 2019, presented the 2019 Mid Term Fiscal Policy Review, in which he affirmed the increasing headwinds affecting the economy.

In fact, consistent with other global watchdogs such as the World Bank and IMF, the Minister downgraded the 2019 economic growth forecast to a decline of 2.1%, with prospects of a further downgrade. Although Government's projection is still optimistic when compared to the projected declines of -3.1% (World Bank) and -5.2% (IMF), it largely confirms that the country is going through a painful, complex period of *stagflation*.

Stagflation is a period whereby, paradoxically, economic activity and growth decline - due to constrained aggregate demand and high unemployment. At the same time, prices and inflation, instead of falling due to the low demand, actually rise as a result of previous macroeconomic imbalances and exogenous cost push factors.

In the case of Zimbabwe, these cost pressures are mainly stemming from previous periods of exchange rate misalignment and subsidies. Specifically, the Minister proposed the following measures, most of which are, in the short term period, likely to result in further inflationary pressures.

- ☞ Extend the scope of tax on e-commerce transactions,
- ☞ Extend the application of the 2% IMMT to transfers by mobile money agents to recipients,
- ☞ Set an *ad-valorem* tax of 45% and 40% on petrol and diesel, respectively,
- ☞ Set an excise duty of US\$0.45 and US\$0.40 on Direct Fuel Imports of petrol and diesel, respectively,
- ☞ Increase interest rate on outstanding tax debts to 25%, from LIBOR plus 5%.
- ☞ Peg a flat capital gains tax of 5%,
- ☞ Increase Government levies, charges and fees, and
- ☞ Increased electricity tariffs.

The Minister also announced a supplementary expenditure & net lending budget of \$10.8 billion, which is by far greater than the original budget of \$7.7 billion. This increased the projected budget deficit for 2019 to \$4.5 billion, from \$2.9 billion. The supplementary budget will be funded through local means, as budgetary support via the vote of credit remains



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curtailed. The sources of funds will, therefore, include issuances of treasury bills on the open market, increased taxes and expansion of the tax base.

The funds raised from the taxes will be utilised on, among other projects, importation of grains & cereals, supporting the productive sectors - particularly agriculture and industry - funding infrastructure development, social service delivery and welfare of civil servants.

Meanwhile, on a positive note, the Minister outlined the progress achieved in enhancing fiscal prudence, with the Government recording a cumulative budget surplus of \$803m during the first half of the year. The Government is also pursuing an IMF Staff Monitored Program, as part of measures to build a track record of sound economic reforms. The Minister also proposed the following supportive measures.

1. Carry forward clothing manufacturer's rebate,
2. Maintain suspension of duty on commercial tyres by ring-fencing the importation of a further 100 000 tyres at a lower duty rate of 15%,
3. Added some components on the electrical manufacturers' rebate,
4. Removed duty on solar batteries,
5. Reduced customs duty on various motor vehicle filters to 5% across the board,
6. Proposed recognition of mining royalties as a deductible expense in the determination of taxable income,
7. Streamlining fees and charges levied on mining operations, and
8. Adoption of a sliding scale for royalty on gold,

As part of measures to cushion workers, and somewhat stimulate aggregate demand, the Minister adjusted the tax free thresholds as follows, effective 1 August 2019:

Tax band (ZWL)	Rate of tax (%)
0-700	0
701-3000	20
3001-10000	25
10001-20000	30
20001-30000	35
30001 and above	40

Source: Ministry of Finance & Economic Development, 2019 MTFPR

From the foregoing, the prospects of the ongoing reforms remain fairly balanced, with risks tilted to the downside due to potential fiscal slippages, continued curtailed economic diplomacy, debt overhang, and potential policy proposals.



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