SOUTHERN AFRICAN PARLIAMENTARY SUPPORT TRUST (SAPST)

The 2012 National Budget: How do we see it panning out?

Introduction and Background

The Minister of Finance, Hon T. Biti (MP), presented the 2012 Budget Strategy Paper (BSP) to Parliament of Zimbabwe on 5 October 2011, to guide budgeting for the forthcoming year (2012), whilst providing indicative fiscal priorities for 2013 and 2014. This novel fiscal planning tool will give fiscal planning a medium-term perspective, and hence lock in credibility in Public Finance Management. The Public Finance Management Act [Chapter 28; 5] obligates the Minister of Finance and the Budget, Finance and Investment to hold Public hearings to offer the public and other stakeholders the opportunity to express their views and expectations and solicit for inputs on the 2012 National Budget. The Treasury embarked on extensive countrywide consultations in respect of the preparations for the 2012 Budget. The consultations covered the length and breadth of the country, embracing a wide spectrum of stakeholders across all the Provinces and the people spoke. The next budget will be tabled in Parliament on the 17th November, 2011, and will guide business planning for the next 12 months.

The fundamental question that we ask is “What next?

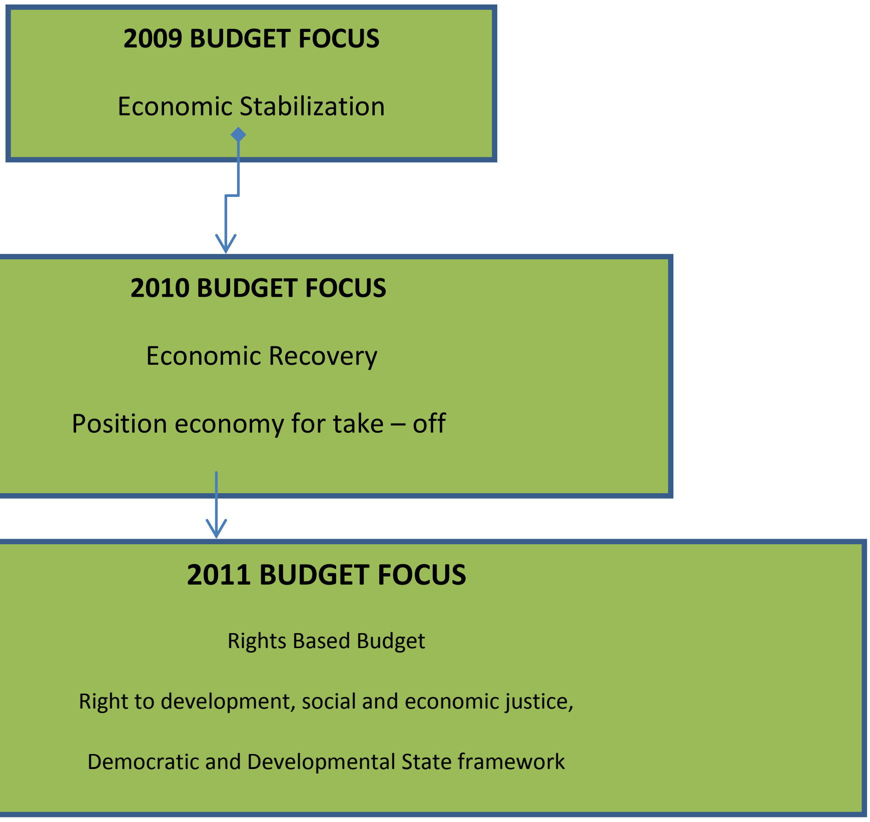
The national budget is a tool at the disposal of government to distribute public resources, whilst embracing policies that seek to expand the horizon of economic growth. The national budget is tabled annually, with policies meant to influence economic activities in that period, though laying the foundation for subsequent periods. Thus, the impact of a budget may not be felt immediately, depending on the economic challenges to be addressed, but in the following year, or even later, what we call the long run, any period in excess of 12 months.

Recalling the Policy Thrust for 2009, 2010 and 2011 National Budgets

The main objective of the 2009 Budget presented on 17 March 2009 was to implement the Short-Term Emergency Recovery Programme (STERP), whose main thrust was to restore macro - economic stability and growth as provided for in the Global Political Agreement (GPA). On 23 December 2009 the Three Year Macro-Economic Policy and Budget Framework 2010 – 2012 (STERP II) succeeded STERP. The vision of STERP II was to build a dynamic, stable and sustainable developmental economy whose objectives aligned with the 2010 National Budget were; Sustaining macro-economic stabilisation and consolidating STERP, support for rapid growth and employment creation, ensuring food security, restoring basic services, encouraging public and private investment, promoting regional integration, restoring basic freedoms and restoring international relations.

The obligation to pursue the right to development within the context of all other broad social and democratic rights defined in the African Charter was the corner stone for the 2011 Budget. This emanated from Article 22 of the African (Banjul) Charter on Human and People's Rights adopted on the 27th of June 1981 that reaffirmed the right of all African people to economic, social, and cultural development and obliged all African States to ensure the pursuit and exercise of the right to development.

The following figure traces the development path that Zimbabwe has taken over the last three years.



It is evident that as a country there is a growth pattern that we have adopted, which has moved from initial focus towards stabilization of the economy, economic recovery, and hence driving sustainable and shared economic growth path through a pro - poor budget framework. Pro-poor growth is achieved through pursuing a growth path that guarantees the integration of the poor in the economic growth policy framework of the country.

The Recent Budgetary Performance

	2009 act.	2010 est.	2011 proj.	2012 proj.
Real GDP growth (%)	5.4	8.1	9.3	7.8
Annual Inflation (average %)	-7.7	3	4.5	5
% GDP				
Revenues	16.6%	34.8%	30.5%	34.0%
Current expenditure	14.3%	23.9%	23.8%	25.1%
Budget deficits	0	0	0	0
Employment costs	9.8%	16.4%	20.0%	20.5%
Other recurrent expenditures	3.2%	7.5%	3.8%	3.4%
Capital expenditure	0.8%	6.2%	6.1%	8.5%
Exports fob	28.7%	50.3%	46.1%	46.2%
Imports fob	57.1%	76.9%	62.2%	57.6%

Source: *Ministry of Finance and SAPST Economic Affairs*

Focus on the Priorities for the 2012 Budget

According to the Budget Strategy Paper (BSP), released by the Minister of Finance early October, 2011 to guide preparations for the 2012 Budget, Government is projecting a $3.4 billion spending envelope for the forthcoming fiscal year. In 2011 the government spending envelope was US$2.7 billion. However, inflows from foreign donors are expected to account for US$500 million, a downward revision from the US$593.7 million that was set for 2011. Government is also projecting a balanced budget in 2012, with all revenues raised from domestic sources, and the cash budgeting approach persisting. The revenues as a percentage of GDP are expected to rise from 30% to about 34% owing to tax reform and restructuring in ZIMRA.

Industry Supply response…….

Industry supply response is a major driver of economic recovery, and despite the positive economic developments over the last 2 years, capacity utilization still has to recover meaningfully. Retailers are still stocking foreign goods, for some brands, costing the country the much-needed foreign currency. This scenario implies that we are exporting jobs at the expense of growing local employment opportunities. The closure of 75 companies over the past two years in Bulawayo alone is one sad example. It is however of major importance that the 2012 budget addresses fully these challenges that have negative impact on the economy's growth prospects in the near term. The Distressed and Marginalized Areas Fund (DiMaF) should be administered by the private sector. The fund while welcome must not be confined to Bulawayo but also be extended to other regions where industry has collapsed. As such, government must target those industries with the potential for downstream benefits in all the areas, for example BATA in Gweru.

Local industries must be protected to enable local employment creation. There should be mechanisms that protect consumers from inferior and harmful products coming into the country.

Electricity Energy ……….

Erratic supplies have negatively affected agriculture, industry, health, environment, education sectors. Funding must be availed to rehabilitate power stations such as the Bulawayo Power Station and building new power stations in areas with coal like Sengwa mine and others as demand is outweighing supply.

Government should encourage the use of other sources of energy such as solar in order to ease the pressure on the demand for electricity. Incentives such as the removal of duty on solar panel and other ancillary products should be introduced to encourage the use of solar energy. The removal of duty on solar power equipment will see households and companies cheaply acquiring and installing solar systems that will serve as an alternative power supply. Households can be subsidized in the purchasing of solar geysers that will significantly reduce consumption by close to 400KWH.

The rural electrification levy should be channelled towards solar power programmes in the rural areas, rather than adding additional households on the already suppressed power grid. This will greatly reduce the current unsustainable pressure on the national grid and have the added beneficiary of having more people accessing energy at a low cost.

Bank loans and Deposits………….

The bank deposits and loans increased by US$ 401 million and US$243 million respectively over the third quarter ending 30 September 2011. This however, resulted in a decrease of the intermediation ratio to 78.48% from 80.96% compared to the second quarter. The major obstacle is the short-term nature of the advances that banks are willing to offer, while companies are demanding more of medium to long-term financing for plant and machinery. It is also worrisome that over 90% of the loans and advances continue to have loan tenure of between 3 to 6 months with average interest rates of over 20% per annum. This increases the cost of production for locally produced products, particularly basic commodities resulting in cost-push inflationary pressures, which hurt the average wage earners.

External Debt ……..

Zimbabwe's external debt, currently estimated at over US$7 billion, which is close to 168 % of GDP and accumulating interest of about US$300 million annually, remains a major impediment to normalization of relations with creditors and financial institutions. In this regard, the country is unable to leverage new financing from International Financial

Institutions (IFIs) and bilateral institutions. Government has already agreed on Zimbabwe's Accelerated Arrears Debt Clearance and Development Strategy (ZAADS) as a strategy for resolving Zimbabwe's debt challenges. The strategy focuses on re-engagement and normalizing relations with creditors and the international community in order to secure maximum debt relief. This should provide scope for the country to access new financing to augment domestic resources for sustainable economic growth and development.

Agriculture ………

Agriculture must be prioritized for its importance in the economy. The Budget should put in place mechanisms of the distribution of inputs and farming implements, monitoring and evaluation exercises to check whether the resources availed were used by the beneficiaries and for their intended purposes. The GMB should be re-capitalized, so that it pays farmers in time for their produce. Delays in payment are hampering farming operations, with farmers in turn, failing to pay their employees and incurring extra costs on bank loans. The delays also affect planning for the next planting season.

Mining

Transparency and accountability especially in diamond mining is needed to ensure that the country benefits from these mineral resources and all revenue generated should be channeled through the Consolidated Revenue Fund (CRF). It is necessary to put in place attractive policies for investors to come in and resuscitate closed mines such as Shabani and Mashava Mines (SMM) and the others.

Mining companies are not adequately compensating for dislocation of villagers as well as for the pollution that takes place. In the cases of relocation, often people end up in places without basic infrastructure such as roads, schools, clinics and water among others. There is need to set aside a fund for small scale miners to eradicate illegal activities in mining and to protect the environment. Mining companies should support local council in infrastructure projects.

There is a mismatch between country's vast mineral resources and their contribution to government revenue, of major concern is whether profits are to be taxed or special rates on income earned be applied.

Parastatals

Government has been talking for a while on privatizing Parastatals that have become a drain on the fiscus. There is need for the 2012 national Budget to come up with a tangible privatization implementation timetable to avoid using taxpayer's money to fund the luxurious life styles of executives who are running loss-making parastatals.

Conclusion

This article is meant to provoke debate on this topical subject. As we move into 2012, let us focus on realities, and drive a common and shared economic recovery path. The budget has that responsibility.

We will feature a critique of the 2012 Budget, once it is presented to Parliament on Thursday 17 November next week to gauge how far it addresses our beckoning challenges.

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