

The 2013 Budget: The Challenges and Priorities SAPST Advertorial November 2012

Introduction

The run-up to the 2013 Budget has been characterized by anxiety and mounting expectations. Using this platform we intend to share with the readers our views on the forthcoming 2013 National Budget through this space. The first article in this series examines the context for policymaking at this Budget. The next article will discuss what a development Budget could look like in Zimbabwe based on the experiences of countries that succeeded in transforming their economies. The final article will assess the measures taken in Budget 2013 against the analysis of the first two articles.

The economy has stabilized, but no solid recovery yet

Ten years of economic decline have weakened Zimbabwe's capacity at all levels of Government, depleted the financial, physical and human capital of both public and private sectors, and led to the collapse of basic services. The appointment of Government of National Unity (GNU), in early 2009 ushered in a new economic dispensation in Zimbabwe that was capped by the launch of the Short Term Emergency Recovery (STERP), programme that fostered to restore economic stability. One of the key installments of this programme was the roll - out of economic stabilization reforms, key of which included the adoption of the multi - currency exchange rate system that allowed business and the public to transact using the South African Rand as a reference currency, whilst other currencies such as the United States Dollar, British Pound, Botswana Pula were also allowed to serve as legal tender. The most notable success of these reforms was the immediate abatement of inflationary pressures from a hyperinflation peak of 128,000,000% in August 2008, to current levels of below 5%; 2012, with bright outlook of 5% for the medium term; 2013 – 2015.

On the national output (GDP) front, after a sustained period of economic decline that accounted for more than 48% slump in output during the decade, 2000 -2008, catch - up growth should be rapid. The results of economic stabilization - single digit inflation of below 5%, and growth rates of above 7% - have been characterized as a recovery, yet, growth has now slowed. Ministry of Finance's forecasts of GDP over the medium term (averaging 6.7% between 2013 and 2015) appear optimistic given the downside risks - the prospect of a deeper global recession, an unstable business environment, and the continued squeeze on liquidity.

Taking a regional comparison, if Zimbabwe were to have grown at the average rate of other SADC countries between 2000 and 2011, per capita GDP would be triple what it is today, at \$1,612 - levels comparable to Tanzania and Zambia (\$1,610 and \$1,692 respectively), although only a tenth of that found in Botswana (at \$16,105 per capita in 2011). Table 1 provides a snapshot of this scenario. In contrast, between 2000 and 2008, output in Zimbabwe nearly halved and GDP per capita in 2011 was still only \$515 - saved only by the DRC from becoming the poorest member of SADC.

Country	GDP per capita (PPP), % of GDP (World Bank)		Industry value added, % of GDP (World Bank)		Agriculture value added per worker, \$ (World Bank)	
	2000	2011	2000	2011	2000	2010
Zimbabwe	\$866	\$515	25%	23%	321	161
Botswana	\$8,840	\$16,105	53%	45%	520	534
Tanzania	\$781	\$1,610	19%	27%	235	289
Zambia	\$909	\$1,692	25%	38%	240	214
DRC	\$213	\$329	20%	24%	182	173

Fundamental constraints to growth remain

Fundamentally, the trajectory of Zimbabwe's prolonged industrial decline which started in the 1990s has not been altered much yet. While once Zimbabwe was one of the most industrially diversified countries in Sub Saharan Africa (SSA), apart from South Africa, the post has since been surpassed by countries such as Kenya. Key manufacturing sub - sectors have either collapsed or downsized, with the clothing and textile, leather and footwear, and furniture, among the worst affected. Once an employer of 200 000 Zimbabweans in the beginning of the 1990s, the industrial sector now officially provides work for around 140 000. A recent survey by the Confederation of Zimbabwe Industries (CZI), assessing the state of the manufacturing sector has revealed that capacity utilization has slumped from 57.2% in 2011 to 44.2% in 2012, confirming the gloomy picture in the sector. This weak capacity scenario depicts the situation in the sector which has lost competitiveness, given the untenable business operating conditions characterized by structural problems in the economy (energy, rail, road and air infrastructure, water reticulation etc), as well as prolonged credit squeeze that has hampered any meaningful recapitalization.

Stabilisation measures have only partially arrested this decline, rather than reversed it. The dismantling of industry protection and hence competition, as Zimbabwe complies with regional trade integration agendas (COMESA, and SADC), has exposed obsolete technologies and machinery. There are few opportunities to recapitalise in the context of the unstable political environment, and unpredictable investment climate that have dented any near term prospects for attracting fresh capital into the economy, and hence industry. Dilapidated public infrastructure continues to deteriorate - manifested in daily power cuts and water supply interruptions. The farming sector has declined as a proportion of national output, hobbled by a shortage of skills, poor infrastructure and insecure tenure.

It is therefore unsurprising that we remain one of the worst places to do business in the world, and one of the least competitive, recognised in the 2012 World Bank's Doing Business indicator (where Zimbabwe fell two places to 172nd out of 185 countries), and the 2012/13 World Economic Forum's Global Competitiveness Index (132nd out of 144 countries). As a result, the economy cannot sustain the population: 70% of the country's GDP is spent on imports; only about 12 per cent of the adult population has regular employment; and 85 per cent of the population lives below the Poverty Datum Line of \$535.

It is difficult to characterise this state of affairs as a recovery - stabilisation will be challenging enough. We have painfully crawled out of the depression, but are still in a state of fragility.

The Budget must address severe fiscal constraints, skewed spending priorities and the urgent need for structural reforms

To transform the economy, this Budget must focus and balance on three issues: supporting demand through fiscal policy; redistributing resources towards growth enhancing sectors; and pushing through structural reforms to create opportunities for inclusive growth.

Fiscal policy is severely constrained - hamstrung by a debt worth 118% of GDP and a cash-budgeting system. The tax burden of 32% of GDP in 2010 - the highest in the region, compared to 26% in South Africa and 18% in Zambia - weighs on the fragile economy. The Treasury's fiscal authority is continually undermined by recurrent revenue shortfalls due to widespread corruption. As one example, customs' income was \$380 million in 2011, yet the bill for second-hand and new car imports into Zimbabwe amounted to \$1 billion, which alone should bring in \$600 million in taxes. The tax system therefore relies on those least able to avoid it - the most vulnerable - through a regressive consumption tax.

The current allocation of budgetary resources indicates priorities that are extremely skewed. The budget is characterised by consumption, represented by the 72% of revenues going towards employment costs so far this year, more than double the regional average. This wage bill jeopardises growth by crowding out public investment - a binding constraint to growth. Yet the hope of restraining the wage bill appears optimistic. At the Medium Term Policy Review in July, the Government's response to the unexpected growth in wage costs was to make room for it by suppressing funding for social and physical infrastructure.

Skewed priorities are evident elsewhere. Agriculture has traditionally been the mainstay of the economy - providing livelihoods for over 75% of the population, and sustaining industry with raw materials and demand for services and goods. Yet despite the decline of this sector, we continue to see a greater proportion of expenditure spent on defense (5% compared to 9% of total expenditure respectively in 2011). However, even if the Budget were to realign spending priorities, it would not be enough to ensure sustainable growth. There is need to provide more budgetary resources towards rehabilitation of physical infrastructure, as well commission new infrastructure (energy, and fuel, roads, rail etc) to complement private sector development if the country's medium to long term growth prospects are to be brighter.

The prospects for a development Budget

Resourcing an agriculture led reform would raise rural incomes and provide the most direct way to address poverty, enhance employment and kick-start growth. During the 2011 and 2012 Budget process the Minister of Finance adopted a Pro - Poor Budget framework. This is noble gesture which should be sustainable going forward, as it lays the foundation for a development state spending framework, as well as an inclusive broad - based economic growth model. The major challenge has been that of limited fiscal space, with revenue inflows from diamonds for example performing below par. There is also need for strong pro - poor advocacy in the budget agenda, so as to unlock the political will to translate policy into reality. The introduction of the Budget Strategy Paper by Hon Biti (MP) Minister of Finance is a positive innovation to Zimbabwe's fiscal planning template that promotes broad based public participation and transparency in the budget process.

This should be sustained to build durable public consensus in fiscal planning, and hence serve as a basis for prioritizing public expenditure in the country. Though the challenges highlighted earlier may dampen expectations, deeper economic reform is as crucial as it is difficult at this stage.