



The State of the Economy, Paradigm for Middle Income 2030 and 2020 Budget Framework

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Dashboard of the State of the Economy

- The state of the Economy is characterised by the following indicators:
 - Trade deficits;
 - Chronic inflation (blended inflation versus ZWL inflation);
 - Budget deficits (reference: mid term review omitted US\$75 COVID-19 allowance, \$18 billion stimulus package and now new salary adjustments – 300% pay increment for civil servants, hidden subsidies in fuel and electricity, etc);
 - Massive incapacitation of workers since most workers earn salaries below poverty datum line which has now topped \$20,000;
 - Large part of the year was characterised by exchange rate spikes but now have stabilised since the introduction of the auction system – its sustainability is threatened by possible increase in money supply and drought of foreign currency;
 - Economic recession which has been worsened by COVID-19
 - Dollarised economy – as expected the economy is now dollarised but the Zimbabwe dollar has remained relevant since it is used as a medium of exchange to buy the USD, mitigate cost pressures while from Government perspective, the ZWL has remained relevant because it doesn't have USD balances to pay civil servants;
 - The fact of the matter is that dollarisation is with us for some time, hence question which arises is what will be the currency the budget will use considering the fact that Government is now collecting taxes in USD?

The State of the Economy and The Paradigm for Vision 2030

- The current dynamics in the economy are symptoms of an underlying cause which is two – pronged, that is: (1) **drought of production**; and (2) **country perception**;
- **Drought of production**, on an annual basis, on average, the country spends about US\$2.5 billion on goods which can be produced locally and major imports are cereals (US\$500 million); soya bean (US\$250 million); fruit and vegetables (US\$200 million); tissue and paper (US\$200 million); steel (US\$300 million); fertilisers (US\$150 million); pharmaceuticals (US\$300 million); and a number of small imports which when combined becomes significant such as pampers, chewing gums, pencils, etc;
- Country perception – our brand equity as a country is at all time low because of political tensions and various policy inconsistencies as well as policy reversals, for examples: **corruption**, **abductions**, **arrests of activists**, **closure of ecocash** and **suspension of stock exchange**, introduction of **Zimbabwe dollar** and in less than a year we are **back to USD** – this repels investments (both domestic and foreign) which is key in fostering economic growth which is a priori requirement for driving the country into a middle income status ;
- Unfortunately, if we don't address these twin problems we will have to forget the middle income status.

Budget Framework for 2021

- The budget framework for 2021 must be focused on enhancing productivity & production, guaranteeing policy credibility and consistency. In this regard, it must be underpinned by rigour in the development of assumptions which informs the budget;

Budget Framework for 2021

- The 2021 national budget should provide **adequate tax incentives** and **funding** (**need to strike a balance between the desire for budget surplus and running a deficit to finance production**) to the Ministry of Lands, Agriculture, Water, Climate and Rural Development to support the recently launched policies:
 - Pfumvudza;
 - Agriculture and Foods Systems Transformation Strategy;
 - Livestock Growth Plan;
 - National Drought Plan for Zimbabwe
 - Horticultural Sector Development Strategy
- For other sectors, incentives such as local content tax breaks should be considered for value chain enhancement programmes.

Budget Framework for 2021: BSP Assumptions

- Prospects for 2021 and beyond are based on the following broad assumptions:
 - Recovery from Covid-19 pandemic;
 - Resumption of global economic activity;
 - Good agricultural season;
 - Enhanced revenue collection;
 - Sustainability of the auction system;
 - Tourism and trade resumption;
 - Materialization of mining investment targets;
 - Firming international mineral prices;
 - Recovery in domestic aggregate demand;
 - Macro stability characterized by currency stability, declining annual inflation averaging 134% and fiscal stability;
 - Domestication of value chains; and
 - Further control of wasteful expenditures and value of money on all expenditures.
- On the basis of the foregoing, in 2021, according to the Ministry of Finance and Economic Development, the economy is predicted to recover from a **projected contraction of - 4.5% in 2020** to a **growth of 7.4% in 2021**, driven by consumption (2.6%) and investment (5.8%) improvements.

These targets are hard to meet considering the twin problems of low production and country perception (see next slide for our past experience) since the proposed policies in the BSP are not adequately addressing production.

Review of Past Performance of the Budget Framework and Lessons

Indicators	2018 (Planned)	2018 (actual)	2019 (Planned)	2019 (Actual)	2020 (Planned)	2020 (Est)
Real GDP Growth (%)	6.3	3.1	9	-8.5	3.1	-4.5 vs -15
Inflation (Annual average)%	4	42.1	5	+500	5	837 vs 134%)

Lessons & How to We Make Our Policies Work?

- In previous policy framework and even looking at the current BSP, there is deliberate omission of the industrial policy (even mentioning of the name) although some of the policy instruments such as value chain development are mentioned;
 - There is need to place emphasis on a industrial policy which pays extra attention to sectoral policies & value chains development models – these must be outlined in the 2021 budget and must be given priority – examples: leather value chain, cotton value chain, pharmaceuticals, packaging, steel, fertilisers, etc;
- There is need to place emphasis on the need for the operationalisation of a commodity exchange – this will unlock funding, markets and reduce postharvest losses which is key considering possible glut of grains in 2021.
- There is need to inclusive consultations (**powered by evidence**) (not ticking the box) with various stakeholders in their own respective categories (academia, business, civil society, legislators, development partners). This must be done with an open mind.
 - The submissions made from the parliamentary consultations and from other stakeholders should be considered in the 2021 national budget and the National Development Strategy (NDS) – we haven't seen it but we hear that it will be launched in October 2020 – we need avoid being given a platform to review it when it is launched – because for obvious reasons it will look like we are there just to critic polies for the sake of it...