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Mid-Term 2016 Budget Review

On 8 September, 2016, Finance Minister Patrick Chinamasa presented his long overdue Midyear Budgetary Review Statement.



Tendai Biti

That review was presented in the context of massive structural challenges arresting the Zimbabwean economy. Chief among them being the collapse in output, deindustrialization, unemployment, deflation, revenue under performance, unsustainable current account deficit and an out of control wage bill to name a few.

- o Indeed we have consistently argued that this economy is in a recession, one that is fast tracking itself towards economic depression.
 - o Understanding that this reality of a recession, should trigger anti-depression and anti-cyclical policy measures, but this has escaped this Government to date.
 - o Compounding Chinamasa's challenges were further headwinds;
1. The non-performance of agriculture resulting in at least 4, 3million people being fed by the international community.
 2. Perennial challenges such as that of massive corruption and leakages within the financial system. Corruption has resulted in a steady hemorrhage of resources that otherwise would be available to Government. Chief among these being missing resources from the diamond sector which the country's president modestly put at \$15billion.

COLLAPSED OUTPUT

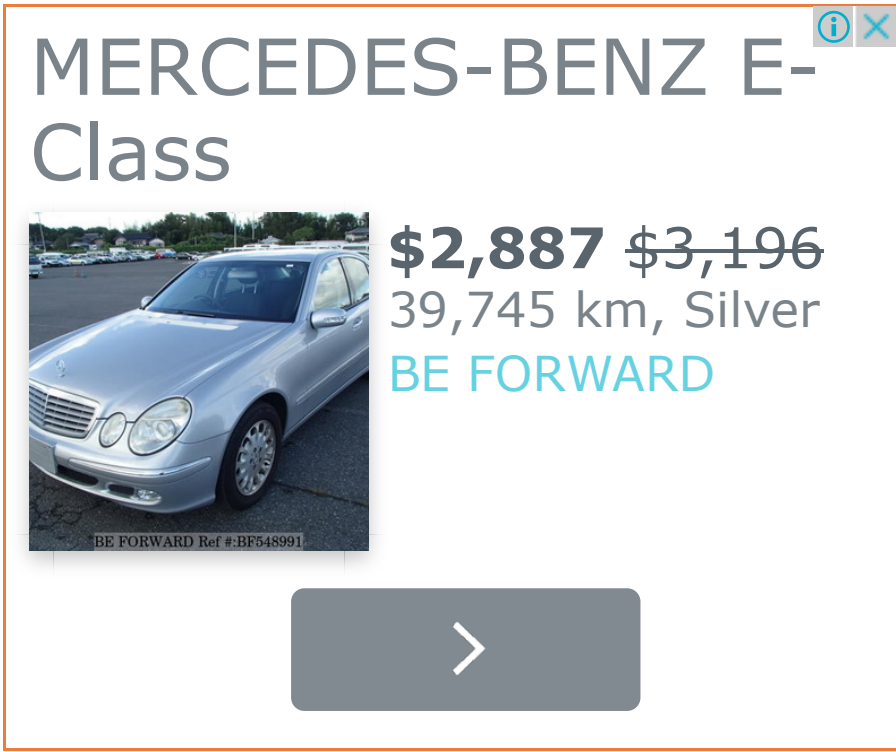
- o At the epicenter of Zimbabwe's economic challenges is the fact that output and production have collapsed.\
- o The heart of the collapse is centred on the decline in agriculture. In its heyday, agriculture used to contribute 45% of the GDP. But its contribution now is a negative territory averaging a -5% in the last four years.
- o The sectorial growth rates produced in the mid-term review itself are significant.
- o The above table shows a declining output reflected in GDP growth rate at 10, 6% in 2012 down to 1, 1% in 2015.
- o In our own calculation, the projected growth rate in 2016 would be -3, 8%down from -1, 1% in 2015.

- o It is incorrect and illegal for the government to understate the depth of economic under performance and positively cook books.

CURRENT ACCOUNT DEFICIT

- o Precisely as a result of low productivity, Zimbabwe continues to carry “unsustainable trade and current account imbalances, reflecting declining exports, low foreign direct investment flows and limited offshore lines of credit, against high current account outflows primarily in the form of imports”.
- o The Mid-Term Review Statement discloses that in the period under review, the country’s exports were \$1 billion against an import bill of \$2, 5 billion.
- o In that short period of time, the mid-term review statement acknowledges a current budget deficit of 12% of GDP.In our view, the country is now almost totally dependent on imports and this is evident from the goods stocked in our supermarkets.
- o The current account deficit is an unacceptable hemorrhaging of a tiny economy such as our own and has resulted in the crude exportation of human resources.

FDI AND DIASPORA REMITTANCES



- o Given the huge thirst of capital that this economy faces, it is shocking that the mid-term review statement did not address the key question of Foreign Direct Investment (FDI).
- o Part of the obvious reason being that no meaningful investment came in during the first half of the year.
- o Self-induced policy distortions, the chaotic state, violence and abuse of the rule of law would work against any investment.
- o Moreover, the government keeps on clinging on the unsustainable Indigenization and Empowerment Act with its 51% appropriation of all foreign investment
- o No wonder why according to the UNCTAD, FDI figures for 2015; were a paltry \$360 million.
- o Worryingly Diaspora remittances which were over \$1 billion a year or so ago have also dramatically collapsed.
- o In the period under review, remittances were a paltry \$387 million compared to \$457 million for the corresponding period in 2015.

LIMA AND DEBT QUESTION

- o The 2016 Budget was predicated upon the success of Zimbabwe’s re-engagement exercise, now commonly known as the Lima Plan.
- o As we have constantly argued the resolution of Zimbabwe’s debt crisis is one of the necessary but not sufficient preconditions of moving this country forward.
- o That no single line devoted in the mid-term review statement to the Lima process is as misleading as it is unacceptable.
- o Chinamasa had a duty to update the country on the Lima process.
- o In doing so, he would have been obliged to disclose that the process is all but dead as a result of failure by the government to accept and implement huge structural reforms that are required.
- o He would have been obliged in the same process to disclose the reality that without reforms and a successful debt relief this country will remain the little banana republic that it is.

THE ELEPHANT IN THE LIVING ROOM – LIVING BEYOND ONE’S MEANS

- o We have constantly argued before that sound economic management requires fiscal discipline and strict adherence to budget lines approved by Parliament and contained in the Blue Book.
- o The biggest challenge of any Zanu PF government is the failure to live within its means and the assumption that money grows on trees.
- o Chinamasa must take full responsibility for abandoning the cash budgeting principle; “We eat what we kill”, that was desperately maintained during the Government of National Unity (GNU).
- o His contempt of policies pursued during the GNU, has led him to where he is now, a desperate abyss of lawlessness, isolation and contempt with no friend or sympathiser.
- o In the period under review, over expenditure was \$3, 084 million, with the total budget deficit standing at \$623 million and projected to be \$1 billion by year end.
- o Ironically as expenditure is increasing, revenue projection has been revised downwards from USD3, 85 billion to \$3, 7 billion.
- o The reality, therefore, is that at a certain stage the government will reach a gridlock, a complete shutdown – technically called insolvency.

- The failure of the government to pay its wages on time and to service its creditors is a teaser of the Armageddon to come.

THE COMING ARMAGEDDON:

- It is the manner in which the government has financed its budget deficit which is frightening.The mid-term review statement discloses that the budget has been financed by toxic Treasury Bills.
- Regrettably the government does not disclose the size and quantity of the Treasury Bills.
- Section 300 (4) (a) of the constitution obliged Minister Chinamasa to disclose all loans raised by the state in his mid-term review statement.
- In our estimation toxic Treasury Bills out there are well in excess of \$3 billion and we challenge the Authorities to prove us wrong by making full disclosure.
- For a long time we have argued that the Zimbabwe government has raided the central bank’s RTGS balances to finance its recurrent expenditure.
- The mid-term review statement proved us right.Tagged disingenuously in Paragraph 152, Page 38, of the current midterm budget review statement, the government disclosed a table; Government Position at the RBZ.
- The graph shows that government has been running an unlawful and unconstitutional facility with the RBZ now totalling \$726, 1 million. This is unlawful and unconstitutional.
- In our estimation, therefore, the budget deficit is at least 30% of the GDP.
- Any minister presiding over such a mess must resign on his own.If not, he must be fired.

POLICY RESPONSE

- To counter the impending implosion, the Minister had proposed cuts to the total sum of \$318 million.
- These savings were intended to be made from the salaries of top civil servants, suspension of bonuses for 2016/17 and the abolition of certain allowances.
- That was never going to be enough.In our view what is required is the following measures; dismissing all ghost workers on government’s payroll, cutting Mugabe’s frequent overseas travels and taking firm action against rampant corruption in government and state enterprises.
- Deep seated reforms were required which would be painful and vicious. These reforms regrettably would require unity of purpose and strong leadership in government ingredients that do not exist in ZANU PF
- These reforms will require the following measures:
- Microeconomic stability including reverting back to cash budgeting and the target of a primary balance
- Public sector reform including elimination of 200 000 ghost workers
- State enterprise reform
- Repeal of the Indigenization And Empowerment act in order to appeal for FDI
- Crafting of a diamond law and a new mining act to deal with leakages in the commodities sector
- Full alignment of Zimbabwe laws to the constitution
- Respect of the rule of law and constitutionalism
- Attending to much needed electoral and political reforms
- Putting in place legislative measures to deal decisively with corruption

ZANU PF will always be ZANU PF

- Chinamasa’s reforms were nothing but in their nothingness, the government saw it fit to reverse the same.
- This proves our point all along that ZANU PF is not capable of reforming and that the international community and anyone else who thought that they could be saved were wasting their time.
- ZANU PF is a creature still living in the 14th Century and is oblivious to the imperator and duty to reform.
- That is just is the bottom line.
- With Chinamasa’s wings fully clipped it should now be clear to everyone beyond reasonable doubt that Zimbabwe will never reform under ZANU PF
- The few in the international community who thought otherwise must now change their message and in some cases messengers to shift attention to the agenda of transition and transformation alongside traditional humanitarian obligations
- Any policy approach at this late stage based on a belief that the regime can reform and that the economy is the point of entry, will be naïve and foolish

National Transitional Authority

- The Mid- Term Review Statement and Government’s violent reaction to Chinamasa’s miniscule pseudo-reforms is proof beyond reasonable doubt that Chinamasa and his principles have failed
- We thus reiterate our position on the need for an NTA that will provide a soft landing for the thousands of suffering Zimbabweans. The National Transitional Authority will also create an environment for free and fair elections in Zimbabwe which to date are unknown.

I Thank You

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