ECONOMIC STABILIZATION AND RECONSTRUCTION

A stable financial and economic environment for all Zimbabweans

By the time the MDC forms the government, Zimbabwe will have experienced a decade of negative economic growth. This is unparalleled in recent history for a country that has not been at war. At the same time, and mainly because of the collapse in the formal economy, all social indicators have been negative.

Life expectancy has declined to the lowest level of any State in the world. The size of the population has decreased, largely as a result of migration, with a third of the total population now living outside the country, a quarter in South Africa alone. Exacerbating the decline in population has been the trebling of natural death rates to nearly 3 per cent of the population each year, caused by a high incidence of HIV/AIDS, new epidemics of diseases previously thought to be under control, malnutrition and even starvation.

The collapse gained momentum in 2007 because of a further deterioration in the macro-economic fundamentals, an out-of-control budget deficit, and reckless fiscal expenditure by the Reserve Bank. As a result, inflation, which reduced the value of the Zimbabwe dollar from nearly 1 to 2 against the US dollar in 1980 to 500 million to 1 by mid-2007, has soared. This has destroyed savings and reduced the real value of incomes so dramatically that pensions are now worthless and the majority of the working population is in dire straits.

The collapse of economic output and high levels of inflation have affected all sectors of the economy. Agriculture and tourism are the worst affected, with activity and output in both falling by 80 per cent in the decade. Industry is down by at least 40 per cent, perhaps more, and the mining sector, in spite of determined efforts by operators in the industry and very favourable international market conditions, has also declined significantly, with gold output falling to levels last seen in the early 1900s. The recent imposition of price controls and radical proposals for the compulsory acquisition of a majority equity stake in all significant companies – for free, in the case of mining houses – has sharply accelerated the decline in business activity. As a consequence it is expected that GDP will have declined overall by another 12 per cent in 2007.

Because of the destruction of the commercial farming industry, food production has been reduced to levels approaching 20 per cent of demand, and hunger and malnutrition are commonplace. This is compounded by the fall in real earnings and spending power with the result that working people suffer from serious shortages of even the most basic elements of life.

The MDC faces a daunting task in coming to grips with this situation and trying to put some order back into society. It will inherit not only a collapsed economy, failing infrastructure and a massive humanitarian crisis but also a civil service that is highly politicized and decimated by the loss of both skills and experience.

THE BASIC GOALS OF ECONOMIC POLICY

In facing up to its new responsibilities the MDC will seek to:

- Stabilize the national economy, restore macro-economic fundamentals and initiate the process of economic recovery.
- Build a strong economy, using market principles with strong redistributive characteristics and carefully targeted state-intervention policies to promote economic and social justice.
- Institute a broad-based system of safety nets to ensure that, when the reform programme is under way, the poor and marginalized are not unduly affected and that their basic needs are met in full.
- Create a responsive and efficient state that will pursue economic and social justice while at the same time creating an environment conducive to rapid economic growth and development.
- Adopt and implement policies that will address economic disparities with the objective of substantially reducing poverty levels in all sectors of society.
- Restore health and education systems so that all Zimbabweans can have access to the basic services required for life and work.
- Ensure that all Zimbabweans are adequately housed on a ‘whole family’ basis, have access to clean water, and have security of their persons and assets.

The MDC does not think that these ambitious goals can be achieved easily or quickly, and recognizes that any stabilization and recovery programme will inevitably involve both sacrifice and hardship. But it also hopes that, once a new legitimate, democratic government is elected that exhibits its intention to restore human and political rights, economic fundamentals and the rule of law, the international community will assist with this programme initially. The MDC does not, in the long term, want to see the economy dependent on aid.

MACRO-ECONOMIC POLICY

On the assumption that the necessary political conditions have been put in place for a programme of stabilization and recovery, the macro-economic fundamentals are not difficult to identify. In fact, one of the features of global experience in the past decade has been the evolution of a consensus as to those policies that must be in force to enable low inflation, strong growth and stability.

With the economic fundamentals so far out of kilter with this reality, it is not going to be easy or painless to bring them under control. The budget deficit in the past three years has exceeded half of GDP. The Reserve Bank has been in engaged in quasi-fiscal activities that have completely distorted fiscal management and budgetary controls. Parastatals such as the GMB have been operating with deficits that have had a significant impact on the fiscus and national debt. Other parastatals have been trading with operating losses that have rendered them technically insolvent.

Distortions in exchange-rate and interest-rate management have been equally dramatic. Maintaining official exchange rates that are less than one per cent of the real market rates, and interest rates that are a fraction of the inflation rate, are simply not sustainable policies.

The MDC will therefore initiate a six-month stabilization programme immediately upon taking over the reins of government. This will take the form of re-establishing the correct economic and administrative relationship between the Ministry of Finance and the Reserve Bank. New leadership in the form of a new Minister of Finance and Governor of the Reserve Bank will be appointed, and a technical-assistance team of experienced international specialists brought in to assist both the Ministry and the Bank with the programme.

A complete restructuring of government is planned. The MDC will reduce the number of ministries to fifteen. In addition, the structure of government will be revised to streamline its institutions and functions so as to ensure that all State expenditure is justified and managed effectively. A proposed National Social and Economic Council will be established immediately, together with ancillary organs such as a Labour Market Commission. This will ensure that an MDC government consults stakeholders from the very beginning. Such consultation will be continuous.

The goal of the stabilization programme will be to bring inflation down to treble-digit figures very quickly, and to double-digit figures as soon as possible, and to restore confidence in interest-rate and exchange-rate policy. Both will be anchored on market principles and unified. The present system of multiple interest and exchange rates will be eliminated immediately.

An MDC government will pay close attention to the sequencing of the reforms required to restore stability to financial markets and to bring inflation under control. To this end the reform process will be front-ended, with significant reforms taking place immediately the new administration takes charge. This will involve the measures outlined below.

The Reserve Bank

The Reserve Bank will be made fully autonomous and tasked with managing inflation; exchange-rate stability will follow from this. Its role will be restricted to interest-rate management and exchange-rate policy as well as the supervision of the commercial banking system. It will immediately deal with:

- The alignment of all foreign-exchange systems into a single, market-driven system of exchange rates, reflecting open-market values and allowing the Reserve Bank to start building up foreign-exchange reserves.
- The gradual adjustment of interest rates until convergence takes place between inflation rates and interest rates and real interest-rate returns can be re-established. The MDC recognizes that this will impact on over-borrowed companies and, as it does not want to see businesses close, will consider a rescue package where the resultant equity is used in a responsible manner.
- The cessation of all the Bank's quasi-fiscal activities, forcing government to finance its activities in a normal manner from tax and other revenue receipts and by borrowing on the market.
- The adoption of strict money-supply limits.

Fiscal Policy

In recent years, as the economy has shrunk, so the burden of taxation and the many levies of one kind or another imposed on employers and business has grown until tax revenues reached over 50 per cent of GDP. Zimbabwe therefore has the ridiculous situation where, with tax revenues exceeding 50 per cent of GDP, the State has at the same time been running a budget deficit equal to over 60 per cent of GDP. More than half of all government expenditure is thought to be financed by the Reserve Bank's simply printing money or borrowing from the private sector at interest rates that are less than a tiny fraction of the inflation rate. Both practices are highly inflationary and unsustainable.

Total debt liabilities are thought to exceed two years GDP, with external liabilities standing at nearly US$5 billion and domestic debt at the equivalent of US$3 billion. Expenditure on interest payments, despite the unrealistic levels of such payments, is an astonishing 56 per cent of GDP.

Technically, therefore, State expenditure of one kind or another has exceeded the country's GDP. Clearly this is not sustainable, and many of the economic problems presently confronting Zimbabwe can be ascribed to this position. It is impacting on disposable incomes, shrinking consumer spending and driving inflation.

To address this situation the MDC will set strict guidelines for the Ministry of Finance that will require:

- A complete review of the tax system and adjustments to bring it into line with new targets for both revenue and expenditure.
- A complete review of all forms of State expenditure and the imposition of tight controls over all payments and costs. Strict fiscal limits on all ministries will be enforced to ensure that these are within the limits agreed in terms of what funds are available from taxes and other forms of revenue.
- The establishment of a unit within the Ministry to establish the full extent and nature of all government debt and, where necessary and possible, to recover outstanding loans through the courts.
- Initiate negotiations with all State creditors to bring debt servicing under control and determine how the national debt will be managed in the longer term.

It is intended that total revenues from all forms of taxation should not exceed 30 per cent of GDP. This will involve very significant reductions in tax levels across the board as far as individuals are concerned, but the economic situation will require this to be a longer-term goal.

As a starting point personal tax thresholds will be set at the official Poverty Datum Line for the country determined by the Research Centre for Labour. Thereafter, the tax bands will be adjusted to make the system more rational and to provide for a progressive tax system that ensures that those with higher incomes pay progressively more in personal tax.

To fund the envisaged budget, the MDC will review VAT rates as well as import duties. The MDC intends to reduce import duties to no more than 5 per cent on all raw materials and other essential imports. Luxury items will attract higher import duty, although every attempt will be made to ensure that this does not distort trade relations or the process of economic recovery.

The existing raft of different levies such as the Manpower Development Levy, the Standards Association Levy, the Aids Levy and the contributions to NSSA will be abolished and alternative funding sources will be negotiated.

All imports of liquid fuels and oils for the motor industry will attract a duty that will be designed to raise fuel prices to a level that is considered sustainable and competitive with regional fuel pricing. The duty will be paid in full into the National Road Fund, which will be responsible for all roadworks throughout the country. This duty will include an element for third-party insurance, which will also be administered by the Road Fund and will be used to repair infrastructure damaged in accidents as well as third-party claims.

The national budget will be revised and a new budget presented to Parliament for approval. This will take into account the tax and other changes that are envisaged for the MDC's first year in office. The objective will be to restrict the overall budget deficit to no more than 5 per cent of GDP as swiftly as possible.

The magnitude of quasi-fiscal activity by parastatals is not known; however, it is considered to be substantial and to be having a significant impact on State expenditure and borrowings. All accumulated debt will be consolidated into the National Debt administered by the Ministry of Finance.

Monetary Policy

The present system of bearer bonds as a substitute for conventional money will be retained until inflation is brought down to two-digit levels, at which point consideration will be given to introducing a new currency. The question of when to print new notes and in what denominations will be left to the Reserve Bank in consultation with the commercial banks.

The domestic currency will be floated as soon as is possible and exchange rates unified. Exchange controls in respect of the current account will be abolished early on and thenceforth determined by the market. The MDC hopes that the lifting of exchange controls and the floating of exchange rates, along with a new social and political environment, will immediately bring into the formal economy very significant inflows of foreign exchange in the form of remittances and funds being repatriated.

Given the disastrous state of the economy, MDC envisages the need for a stabilization fund and emergency exchange-rate support. This will be discussed and negotiated with regional monetary authorities in the first instance and then with multilateral agencies.