Confederation of Zimbabwe Industries

PRESS STATEMENT ON THE CURRENT ECONOMIC SITUATION…

Despite that the challenges the economy is currently facing, we believe the economy has been performing very well as noted by the upward review of GDP growth by IMF and if we all do the right things, we will continue on this growth path. The last two weeks have seen a dramatic collapse in confidence in the RTGS currency and spiralling parallel market exchange rates. The uncertainty over the value of RTGS has led to some businesses closing and others refusing RTGS money. Businesses are preferring to hold onto their stock whilst awaiting clarification on the value of RTGS.

We have also seen the prices of commodities increasing in the market even where the producers have not increased prices.

We note that this is a result of the imbalance between RTGS and Nostro accounts driven by the fiscal deficit and its financing through the creation of RTGS money.

We recognise that any turnaround measures should start by addressing the fiscal deficit. We welcome the following measures as highlighted in the Transitional Stabilisation Programme and implore government to implement these immediately:

- Expenditure reduction through measures including right sizing public employment; cutting travel expenses; reducing fuel benefits; and curtailing vehicle acquisition.
- Issuing Treasury Bills through market based auctions, and limiting new release to the minimum required for fiscal purposes.
- Limiting the over-draft with the Reserve Bank to the Statutory level permitted by law.
- Accelerating the restructuring and privatisation of state owned enterprises.
- Eliminating budgetary subventions to state owned enterprises and using instruments such as government guarantees to support them where justified.
- Retiring all civil service staff at retirement age and above
- Moving to a market-based foreign exchange allocation system.

Government has come up with a sound fiscal adjustment programme. In order to give the market confidence that the programme shall be implemented successfully, government must publish relevant data timeously.

Given the critically low confidence levels in the economy we recommend the publication of the above start as soon as possible.

The proposed 2% transaction tax is designed to close the fiscal deficit and restore confidence in the RTGS system.

As matter of principle **economies are not developed through over taxation**. However, we recognise that this tax was aimed at widening the tax base. CZI was therefore initially opposed to an uncapped 2% tax and had proposed a cap which would achieve the aim of widening the tax base without over taxation.

However given the **gravity of the current crisis in confidence, we recognise that it is vital that the fiscal deficit is dealt with immediately**. The 2% tax, as subsequently modified by the Minister of Finance on 5 October, **with further adjustments in consultation with the private sector**, should go a long way towards closing the fiscal deficit and restoring stability to the economy.

We therefore recognise the necessity of this tax as a **short term shock therapy measure.**

The alternative is to have incomes further eroded by run-away inflation, increased shortages and a general decline in well-being.

We therefore call on all stakeholders to accept this painful necessity to stabilise the economy.

We also call on Government to play its full part in stabilising the economy and sharing the associated pain by implementing the measures outlined in the TSP and returning to a zero deficit position as soon as possible.

Given that through this tax, we are inflicting pain on the entire economy and assuming collective responsibility to correct government errors of the past, the government is obligated to be fully transparent by accounting for the collections and use of the 2% tax.

We must point out that this tax is **not sustainable over any extended period of time** as it taxes each stage of the value chain and negatively affects the growth and competitiveness of value chains.

We propose that the tax **expires by December 2019** at which point we expect that Government would have adjusted its expenditure mix to match collections and more targeted ways of broadening the tax base will have been developed. In order to demonstrate sincerity on the part of government and give the market confidence that this is indeed <u>**only a short term shock therapy measure**</u>, the enabling legislation for this tax should be <u>**explicitly time-bound**</u>.

All sectors should be allowed to reflect this cost in their pricing.

Turning to the issue of supply of basic commodities, as long as adequate supply of official foreign exchange is made available, prices will remain affordable and our members will be working day and night to ensure product supply.

We would urge that all future policy pronouncements be done after a process of consultation. A formal multi-stakeholder review process should be established immediately to track progress on the implementation of the Transitional Stabilisation Programme.

We note that the economy has been growing despite the challenges and there is no doubt that if Government plays its part in restoring fiscal and monetary stability **by living within its means**, we will see a rapid stabilisation of the economy and continued growth towards making this country a middle income economy by 2030. I thank you!