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FROM SALISBURY 250845Z JUL 80.

TO IMMEDIATE F C O

TELEGRAM NUMBER 1818 OF 25 JULY

INFO IMMEDIATE PRETORIA, EC POSTS, UKMIS GENEVA, OTTAWA, TOKYO,
WASHINGTON, UKDEL WASHINGTON, ROUTINE LUSAKA, NAIROBI, DAR ES
SALAAM, MAPUTO, KINSHASA, JEDDA, BAHRAIN, KUWAIT, ABU DHABI,
DUBAI, DOHA, OSLO, HELSINKI, STOCKHOLM, UKMIS NEW YORK.
INFO SAVING GABORONE, MASERU, MBABANE, LILONGWE, LUANDA.

THE NEW ZIMBABWE GOVERNMENT'S BUDGET AND ECONOMIC POLICY.

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1. INTRODUCING THE FIRST BUDGET OF INDEPENDENT ZIMBABWE, THE MINISTER OF FINANCE, MR ENOS NKALA, SAID THAT AMONG HIS PRINCIPAL AIMS WERE TO CREATE A CLIMATE OF CONFIDENCE FOR BUSINESS AND ASSURE THE INTERNATIONAL BANKING AND FINANCIAL COMMUNITY THAT THE NEW GOVERNMENT'S FISCAL POLICY WAS CONSERVATIVE IN NATURE. THE GOVERNMENT'S POLITICAL PHILOSOPHY WAS ONE OF SOCIALISM; BUT THEY HAD SEEN AND LEARNT FROM THE MISTAKES OF OTHERS. THEIR SOCIALISM WOULD BE "PRAGMATIC AND MILD" IN ITS APPLICATION, BASED ON THE EXISTING MIXED ECONOMY, BUT WITH GREATER PARTICIPATION OF LOCAL CAPITAL AND ENTERPRISE IN NEW DEVELOPMENT IN BOTH THE PRIVATE AND THE PUBLIC SECTORS.
2. THE DETAILS OF THE BUDGET ITSELF COULD SCARCELY HAVE BEEN BETTER DESIGNED TO ACHIEVE THESE AIMS AND REASSURE BOTH THE PRIVATE SECTOR WITHIN THE COUNTRY AND POTENTIAL INVESTORS OVERSEAS. THE FISCAL AND EXCHANGE CONTROL MEASURES ANNOUNCED GAVE THE LIE DIRECTLY TO ALARMIST RUMOURS THAT HAD BEEN CIRCULATING WIDELY AMONG THE WHITE COMMUNITY OF SEVERE INCREASES IN INCOME TAX AND REDUCTIONS IN HOLIDAY TRAVEL ALLOWANCES. THE MINISTER DISOWNED HIS OWN EARLIER STATEMENTS ON THE ARRANGEMENTS FOR THE REMITTABILITY OF PENSIONS, AND SAID THAT THE GOVERNMENT DID NOT INTEND TO INTERFERE WITH THESE. HE MADE AN UNEQUIVOCAL STATEMENT ON THE FREE REPATRIATION OF NEW FOREIGN VENTURE CAPITAL, AND ANNOUNCED MEASURES TO REMOVE THE ANOMALY WHEREBY PROFITS, INTEREST AND DIVIDENDS FROM EXISTING INVESTMENT ARE NOT REMITTABLE TO THE UK, THE US AND CANADA. WITH REGARD TO EXISTING INVESTMENTS, HE INTRODUCED A NEW LIMIT OF 50 PER CENT OF AFTER TAX PROFITS, ON THE REMITTANCE OF DIVIDENDS PAYABLE TO NON-RESIDENT SHAREHOLDERS AND ALSO ON THE REMITTANCE OF BRANCH PROFITS; AND SAID THAT THESE REMITTANCE ARRANGEMENTS WOULD BE EXTENDED TO SHAREHOLDERS AND PARENT COMPANIES IN THE UK THE US AND

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CANADA WITH EFFECT FROM 1 MARCH 1981 AND 1 APRIL 1981 RESPECTIVELY. HE ALSO ANNOUNCED AN EASING OF VARIOUS OTHER REGULATIONS GOVERNING BLOCKED FUNDS, AND PROMISED A FURTHER ANNOUNCEMENT OF POLICY GOVERNING THE RELEASE OF THESE FUNDS THEMSELVES. (DETAILS OF THE FISCAL PROVISIONS OF THOSE RELATING TO INVESTMENT AND EXCHANGE CONTROL, AND OF THE INCOME AND EXPENDITURE PACKAGE ARE IN MY THREE I.F.T.'S: - NOT TO ALL).

3. AT THE SAME TIME. NKALA DESCRIBED THIS, WITH JUSTIFICATION, AS A "BUDGET OF THE PEOPLE". HE ANNOUNCED LARGE INCREASES (OVER 50 PER CENT) IN EXPENDITURE ON HEALTH AND EDUCATION, TO FULFILL ELECTION PROMISES OF FREE PRIMARY SCHOOLING AND MEDICAL CARE. HE REMOVED THE SALES TAX FROM CERTAIN ESSENTIAL COMMODITIES (FISH, MILK AND PARAFFIN). THUS COMPLETING THE PROCESS HE HAD ALREADY BEGUN IN APRIL TO ELIMINATE DIRECT TAXATION ON THE NECESSITIES AFFECTING THE POOREST SECTIONS OF THE COMMUNITY. HE ANNOUNCED THAT THE SUBSIDIES ON MEALIE MEAL AND RELATED PRODUCTS WOULD BE RAISED TO THE LEVEL NECESSARY TO MEET THE LARGE INCREASE IN PRE-PLANTING PRICES FOR MAIZE ALREADY ANNOUNCED BY HIS COLLEAGUE, THE MINISTER OF AGRICULTURE, SO THAT THE PRICE TO THE CONSUMER NEED NOT INCREASE. HE RAISED THE CEILING FOR THE LOWEST RATE OF TRANSFER TAX ON IMMOVABLE PROPERTY, TO HELP LOW-COST HOUSE PURCHASERS. HE MADE NO INCREASE IN THE RATE OF SALES TAX (REDUCED TO 10 PER CENT IN APRIL) BUT SAID HE WOULD INCREASE ITS SCOPE TO COVER A WIDER RANGE OF SERVICES, NOTABLY HOTEL ACCOMMODATION, TRAVEL AND TELECOMMUNICATIONS. HE SAID THAT THE REMAINING BUDGET DEFICIT, OF DOLLARS 454M AFTER INCOME AND OWN RESOURCES, WOULD BE FINANCED FROM BORROWING, INCLUDING OVERSEAS BORROWING.

4. THE MINISTER MADE A FORCEFUL REFERENCE TO THE NEED FOR WAGE RESTRAINT "PARTICULARLY AMONG THE LOWER PAID" AND SAID THAT BUSINESSMEN MUST DO THEIR PART BY KEEPING DOWN PRICES.

5. MR NKALA PAID TRIBUTE TO THOSE COUNTRIES THAT HAD ALREADY GRANTED AID -WITH THE UK AT THE HEAD OF THE LIST - BUT REPEATED SEVERAL TIMES THE GOVERNMENT'S DISAPPOINTMENT AT THE TOTAL LEVEL OF AID SO FAR PLEDGED, AND PARTICULARLY AT THE LACK OF FUNDS SO FAR AVAILABLE TO FINANCE LAND RESETTLEMENT ON THE BASIS AGREED AT LANCASTER HOUSE. HE ALSO MORE THAN ONCE REFERRED TO THE BENEFICIAL EFFECTS OF HMG'S WRITING OFF OF POUNDS STERLING 22M DEBT AND RESCHEDULING THE OTHER POUNDS STERLING 33M AND PAID VERY WARM TRIBUTE TO OUR ACTION. BUT HE SAID THAT DONORS SHOULD NOT ATTACH TOO MANY CONDITIONS TO THEIR AID AND, IN PARTICULAR, SHOULD NOT ATTEMPT TO TIE A LARGE PROPORTION, ESPECIALLY OF LOAN AID, TO PURCHASES OF GOODS AND SERVICES FROM THEIR OWN TERRITORIES.

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6. THE MINISTER'S STATEMENT OF HIS PHILOSOPHY ON TAXATION, INCLUDING THE PRINCIPLE THAT EXCESSIVE PERSONAL TAXATION WOULD ONLY SERVE TO DAMPEN INDIVIDUAL EFFORT AND ENTERPRISE, DREW ADMIRING RETORTS OF "YOU CAPITALIST, YOU EXCLAM" FROM THE RHODESIAN FRONT BENCHES - WHICH WERE GREETED WITH MUCH JOCULARITY ON THE GOVERNMENT SIDE. INDEED THE SPEECH WAS PUNCTUATED BY A REMARKABLE FLOW OF GOOD-NATURED BADINAGE AND SHARED HILARITY ACROSS THE FLOOR OF THE HOUSE: AND MANY OF THE MEASURES ANNOUNCED MET WITH EQUAL ENTHUSIASM ON BOTH SIDES. A FINAL (AND CLEARLY UNREHEARSED) TOUCH OF THEATRE DREW APPLAUSE FROM BOTH SIDES: AS NKALA TURNED TO SIT DOWN, THE FIRST MAN TO CONGRATULATE HIM, WITH A VERY FRIENDLY HANDSHAKE WAS HIS "ENEMY" OF THE PAST WEEKS, JOSHUA NKOMO.

7. THE SPEECH LASTED NEARLY 2 1/2 HOURS, AND ITS WHOLE TENOR - AND ALL ITS MEASURES-BORE OUT (BUT IN FAR MORE DETAIL) THE REASSURING INDICATIONS OF ECONOMIC POLICY THAT THE PRIME MINISTER HAS HIMSELF VOICED ON VARIOUS OCCASIONS. THERE WAS PRACTICALLY A FULL TURN OUT OF MINISTERS (INCLUDING TEKERE) AND NO EVIDENT SIGNS OF DISSENT OR RELUCTANT ACQUIESCENCE AMONG THEM. THOSE WHO WERE INCLINED TO DOUBT WHETHER MUGABE WOULD - OR ALTERNATIVELY COULD - PUT HIS ECONOMIC PRAGMATISM INTO PRACTICE, ARE LEFT WITH LITTLE BASIS FOR THEIR DOUBTS. THE BUDGET HAS BEEN ENTHUSIASTICALLY RECEIVED IN SALISBURY AND BULAWAYO: AND BOTH THE ASSOCIATION OF CHAMBERS OF COMMERCE AND THE CONFEDERATION OF ZIMBABWE INDUSTRY HAVE EXPRESSED THE VIEW AND THE HOPE THAT IT SHOULD AND WILL PERSUADE FOREIGN INVESTORS TO ABANDON THEIR "WAIT AND SEE" ATTITUDE.

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