

EMBARGOED TILL END OF DELIVERY



BUDGET STATEMENT 1999

Presented To The Parliament of Zimbabwe
On Thursday October 15, 1998

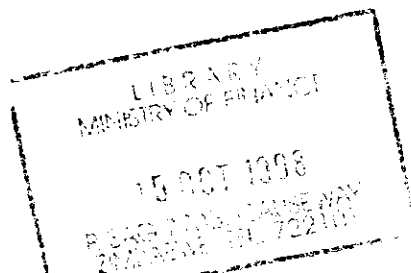
By
THE MINISTER OF FINANCE
THE HON H. M. MURERWA MP

A MOTION

1. Mr Speaker, I move that leave be granted to bring in a Bill to make further provisions in connection with revenues and public funds of the Republic of Zimbabwe and to make provision for matters ancillary and incidental to this purpose.

B. INTRODUCTION

2. Mr Speaker, Sir, fiscal year 1997/98 has been a long and difficult year with many challenges for our economy. The 18 month budget has been characterised by periods of adverse economic developments as witnessed in November, 1997 and which have continued into 1998. High inflation and interest rates, the unstable exchange rate, poor export performance and social unrest experienced earlier this year, have impacted negatively on the overall economic performance.



3. Since the introduction of reforms in 1991, the economy has undergone structural changes which have resulted in both positive and negative developments. The economy grew at an average rate of one percent per annum in real terms for the period 1991-1995 as measured by the Gross Domestic Product (GDP). The growth increased phenomenally to 7 percent in 1996 but declined to 2 percent in 1997. I now project a growth rate of 2.4 percent, down from an earlier forecast of 3.7 percent for 1998, largely due to depressed commodity prices on the international market, particularly for tobacco and major minerals; the sharp depreciation of the dollar against the currencies of our major trading partners; high inflation; the financial sector crisis experienced earlier in the year; and the contagion effects of the financial crisis in South East Asia which is spreading to various parts of the world.

4. As a result of the slowdown in economic growth arising from poor macroeconomic performance, standards of living for the majority of the people have fallen significantly. Real GDP per capita fell from \$2 247 in 1991 to \$1 925 in 1995, mainly as a result of the drought, before rising marginally to \$2 000 in 1997. Unemployment remains high and the incidence of poverty is on the increase amongst the rural majority and urban low income earners.
5. The budget deficit declined from 9.4 percent in 1995/96 to 6.5 percent of GDP in 1996/97 while inflation declined from 21.7 percent in 1996 to 18.9 percent in 1997. This decline is attributable to fiscal prudence which is an important ingredient of sound economic management.
6. It is also apparent that in 1996/97, trade liberalisation had secured significant improvement in the efficiency with which productive resources

were utilised in the economy, leading to a boost in growth.

7. Export growth averaged an impressive 14.2% during the period 1993 to 1996, mainly due to improved operational efficiency by exporters as they were able to import capital goods free of duty, and their ability to access off-shore sources of export credits. Such performance complements longer-term private investment for sustainable economic growth. Export growth is essential to generate adequate foreign exchange to meet increasing import demands, hence the need to expand the export base under ZIMPREST.

8. Mr Speaker, Sir, as we examine the outlook for 1999, Honourable Members will need to bear in mind these factors and circumstances. The task of economic reforms and adjustment should not be the responsibility of Government alone. Our local

industry and commerce should, in the spirit of partnership and co-operation, take more responsibility to solve the social and economic problems facing our country.

C. RECENT ECONOMIC DEVELOPMENTS

9. Economic growth, which was projected at 3.7 percent for 1997 fell to 2 percent, compared to the 7 percent achieved in 1996. The Western European economies registered growth of 2.7 percent, while the United States achieved 3.8 percent. Sub-Saharan Africa achieved 5 percent growth in 1997.

10. Reduction in manufacturing output and weaker performance of the mining and agricultural sectors largely account for this decline in economic growth for Zimbabwe. The same trend is observed for 1998, hence the low growth estimate of 2.4 percent. Sub-Saharan Africa is expected to grow at

about 4.2 percent in 1998. The US economy is expected to slow down to about 2.5 percent while the economies of Western Europe are expected to continue growing at around 2.7 percent.

11. Inflation continues to be a major problem for Zimbabwe. The average inflation for 1997 was 18.9 percent. Inflation for the African Continent averaged 10.5 percent and 13 percent for the Sub-Saharan Africa region. The advanced economies registered an average inflation of 2.1 percent. Clearly, Zimbabwe's inflationary tendencies are much greater than its regional and international trading partners, rendering its exports less-competitive.

12. Mr Speaker, Sir, allow me to underscore the global financial crisis which started in the South East Asian economies, the contagion effects to other regions and the lessons we can learn from such

experience. The financial crisis in Asia which started in 1997 was due to short-term capital flows into and out of the Asian countries which was taking place without supervision from the central banks.

13. The crisis brought with it further problems of confidence in these economies which played a catalytic role in spreading the crisis after it broke out in Thailand, because investors perceived similar exposures in countries across the region.

14. The contagion effects of the crisis are being felt across the globe, particularly in the western world, and are beginning to have implications for economic growth and macroeconomic performance in Sub-Saharan Africa and Zimbabwe is no exception.

15. Hedge funds, which deal in hot money have put the world economy on the brink of a serious economic recession. These hedge funds have, in herd mentality fashion, accounted for serious outflows of foreign exchange on the stock market. This **“irrational exuberance”**, to quote Federal Reserve Bank Chairman, Allen Greenspan, coupled with speculative behaviour on the local market, has led to the depreciation of the dollar.

16. Our stock market has also been hit hard resulting in a decline in market capitalisation of 45% over the past year. The industrial index declined by 41.6% whilst the mining index declined by 57.7% as at end of September 1998.

17. The major lesson from the Asian crisis is that weak financial policies and systems have a serious potential to overwhelm sound macroeconomic policies.

C.1 Monetary Policy Developments

18. Mr Speaker, Sir due to tight monetary policy, money supply growth has been significantly reduced during the first eight months of this year. It declined from about 35 percent in December last year to 20 percent in August this year and is expected to decline further by the end of the year. If this trend is sustained, inflationary pressures in the economy will lessen in the medium term as the balance of payments position improves.

19. Mr Speaker, Sir, I am pleased to report on the positive budget developments during the 18 month budget period. Revenues continue to perform above target, mainly due to the enhanced revenue collections through the Tax Net Operations and Operation Bhadharai. These activities have resulted in an increase in voluntary compliance

amongst the taxpayers.

C.2 Budget Performance

20. The depreciation of the local currency unit by over 60 percent brought with it the need to tighten monetary policy in order to curtail demand for foreign currency. The rediscount rate was increased by 3.5 percentage points in August 1998 from 31.5 percent to 35 percent. This measure, which was aimed at containing import demand, resulted in an increase in market interest rates. Interest on Treasury Bills rose from 26 percent to about 35 percent, while the minimum bank lending rate rose from 35 percent to 41 percent and other interest rates to as high as 45 percent.

21. Expenditures continue to remain within the budgeted provisions, largely as a result of improved expenditure management and

compliance with the Three-Year Rolling Budget by Ministries.

22. Against this background, we must now direct our efforts towards reducing the high budget deficits which have averaged 8.4 percent of GDP since the start of reforms, and aim at balancing the budget. This will enable us to move towards reducing our domestic debt which had reached \$38.1 billion as at September 30, 1998, bring down both inflation and interest rates, boost investor confidence and ensure greater accommodation of private sector credit without compromising monetary policy.

C.3 Financial Sector Developments

23. Earlier this year, our financial sector experienced a crisis when one of the banks collapsed. The damage was however limited as a result of quick action I took to close the bank and put its assets under judiciary management in order to protect the

interest of depositors. The Governor of the Reserve Bank was appointed investigator of the bank. The Governor has since completed and submitted the results of his investigation to Government for further action. The bank ran into difficulties as a result of poor management and fraudulent trading of security paper. The issue is now under control and Government expects to recover as much as possible from the disposal of assets related to the financial institution. This experience of bank failure underscored the need to strengthen the supervision of the financial sector.

24. Mr Speaker, Sir, I want to assure Honourable Members that our banking sector remains sound and solid. The capital adequacy ratio is well above the internationally recommended 8%.

C.4 Balance of Payments

25. As a result of the macroeconomic imbalances that prevailed in the economy, the overall balance of payments position for 1998 is forecast to be much weaker than that attained in 1997. This is due to both domestic and international product market instability experienced during the course of the year, particularly with minerals and tobacco, financial market instability and the unexpected deterioration in the current account deficit. The unprecedented deterioration in declining foreign exchange reserves as a result of low export levels which are projected at 9 percent below last year's level.
26. The disbursement of the first tranche of US\$50 million in May this year from the US\$176 million International Monetary Fund (IMF) Standby Arrangement improved the foreign exchange reserves. The exchange rate came under further

pressure in August as donor financing tied to the Stand-by Arrangement did not materialise.

Faced with such a situation of largely externally – induced shocks, Government introduced temporary measures to reduce pressures on the foreign exchange market. These measures include increases in tariff rates on finished goods and passenger and luxury vehicles and other non-essential items. However, these measures, on their own are inadequate to restore exchange rate stability. Additional measures are necessary.

C.5 Labour Market Developments

27. One of the major challenges facing the country is the persistently high level of unemployment as the number of job seekers at an estimated 180 000 per annum, far exceeds the number of new formal sector employment opportunities available each year. This mismatch between job seekers and job

opportunities needs to be checked through aggressive job creation measures which I will turn to later. We have targeted employment creation at 42 000 jobs per annum during the ZIMPREST period. Only 34 100 new jobs were created in 1995 and the figure declined to 32 600 in 1996. Clearly, these numbers fall far short of the number of job seekers on the market.

C.6 Wage Settlements

28. In the past two years, wage negotiations and settlements have aimed at cushioning the worker through the cost of living adjustment (COLA) whilst not addressing the underlying supply and demand conditions within the labour market. While nominal wages for 1998 have, in most cases, risen within or above the inflation levels, there is need to adopt a social contract involving Government, labour and industry and commerce to contain inflationary pressures. Experience in other

countries has shown that such a strategy can lead to a reduction in inflation. These experiences have shown that an integrated approach to this and other complementary strategies such as envisaged under ZIMPREST will guarantee success.

C.7 Inflation

29. Macroeconomic stability which is a crucial precondition for economic growth and development, implies among others, consumer price stability. In a market economy such as ours, the rate of price changes constitutes the main signal for business. Inflation is costly, erodes the value of investments and financial savings and reduces the predictability of future income and expenditure projections for Government and the business community. Inflation can indeed be a source of socio-political problems, as experienced early this year.
30. Following the steep increases in prices of basic foodstuffs in January this year and the resulting

civil disturbances , price controls were introduced as a temporary measure to protect low income groups from the erosion of their incomes. Government has, through the National Economic Consultative Forum, and with the assistance of the World Bank, commissioned a study on price determination. The study will provide the basis for an early review of this measure.

C.8 Interest Rates

31. Achievement of a stable interest regime at reasonably low levels that encourage our business entrepreneurs to borrow at affordable rates while at the same time encouraging people to save, is essential for economic growth and development. The liberalisation of market interest rates was meant to achieve these goals. Regrettably, our market interest rate structure is such that lending rates have continued to be high, thereby choking off potential investors, while saving rates have been

discouragingly low and in some cases negative, reflecting in part the high profiteering in the financial sector.

C.9 Financial Sector Reforms

32. The legislation to reform the financial sector, which is now before Parliament and includes, inter alia, the amendment of the Banking Legislation and the Reserve Bank Act, and the recently enacted Collective Schemes Act, are aimed at significantly reducing the structural bottlenecks that impede efficiency in the financial sector. Through these reforms, the supervisory role of the Reserve Bank of Zimbabwe will be strengthened while more prudent lending policies and a more aggressive approach to dealing with distressed banks will be adopted. The Banking Bill, which I will shortly table to this august House, provides for the setting

up of a deposit insurance scheme to protect depositors.

D. IMPLEMENTING ZIMPREST

33. Mr Speaker, Sir, the ZIMPREST programme was launched by His Excellency the President Robert Gabriel Mugabe on the 9th of April this year. ZIMPREST is designed on very concrete terms to address our economic and social concerns.
34. It recognises the attainment of macroeconomic stability as a pre-requisite to sustainable economic growth and development of our economy and provides the enabling framework which will guide us to the next millennium. Committed implementation of the programme by all stakeholders will put us on the economic recovery and growth path.

35. In support of the investment drive, it is therefore important, Mr Speaker, Sir, for us to ensure the following:-

- keeping both government and private consumption in check in order to stimulate savings;
- sound fiscal management in order to bring down the fiscal deficit while extending more and better services to the majority of the people;
- debt reduction to allow for economic growth;
- reduced inflation in order to arrest the erosion of incomes and price distortion, whilst fostering the culture of saving;
- nurturing an export orientated economy as a key aspect of our economic growth strategy to enable us to expand our capacity to export competitively and keep our demand for foreign-sourced goods in check.
- improved regulation and supervision of the financial sector.

E. EXCHANGE CONTROL LIBERALISATION

36. Mr Speaker, Sir, the success of ZIMPREST depends on our ability to generate more efficient and higher levels of investment on a sustainable basis. In order to generate the average investment rate of 23% of GDP envisaged in ZIMPREST, Government will continue to make Zimbabwe more attractive to investors, both domestic and foreign, through various measures such as the liberalisation of the trade and exchange regimes.
37. In line with our policy on trade and exchange liberalisation, Government continues to endeavour to lift the remaining exchange controls without placing undue pressure on the balance of payments.
38. The policy on blocked funds which required that profits and dividends on pre-1993 investments be invested in 12 year 4% bonds for individuals or 20 year 4% bonds for companies before they could be

repatriated, will be abolished as from 1st April 1999.

39. The suspension of corporate foreign currency accounts (FCAs) in November last year, will be reviewed when the balance of payments position improves.

40. Mr Speaker, Sir, Government has approved the setting up of the Export Credit Guarantee Company of Zimbabwe. The objectives of the company are to provide guarantees to financial institutions which lend to small and medium scale exporters for pre- and post-shipment financing; provide export credit insurance to exporters against commercial and political risk and to provide advisory services to emerging exporters.

41. The company which will be launched early in the new year, is a joint venture between the Reserve Bank of Zimbabwe and other local private shareholders.

F. BUDGET PERFORMANCE 1997/98

42. Mr Speaker, Sir, the social and economic developments facing our economy during the current budget have brought with them serious fiscal management challenges. Firstly, the depreciation of our dollar against other major trading partner currencies in November last year and in August this year impacted negatively on prices and general affordability of goods and services by our people as most producers sought to cushion themselves against rising import prices in Zimbabwe Dollar terms.

43. Secondly, substantial additional recurrent expenditures were incurred mainly as a result of mid-budget payments for pensions to War Veterans

in December last year. Thirdly, we were faced with additional expenditure pressures on projects such as land acquisition which came on-stream during the course of the year. In order to finance this expenditure, Government had to borrow at interest rates of around 35 percent thereby overstretching the interest burden which is estimated at \$16 billion, up from the original estimate of \$14 billion this financial year.

F.1 Budget Outturn Projections

44. Mr Speaker, Sir, we are this year tabling proposals for 1999 well before the start of the financial year, which is a departure from previous budget presentations.

45. Over the past 2 years, Zimbabwe has begun to establish a track record on budget performance. In 1996/97, a deficit of 6.5 percent of GDP was achieved against an estimate of 8.5 percent.

46. The revised revenue estimate for 1997/98 is \$ 53.4 billion while revised expenditures total \$66.7 billion. This results in a budget deficit of \$ 14.185 billion, or 7.6% of GDP as previously estimated. As at end of August 1998, the deficit was \$7.4 billion or 4.7% of GDP. This is well within the 7.6% of GDP target for end of year. I am therefore confident that the budget outturn for the fiscal year will be around 6.5%. These numbers are, nevertheless, still too high for sustained economic development, particularly as the deficit is largely financed by highly priced Treasury Bills, whose rates are closely aligned to the Rediscount Rate.
47. Net Foreign financing which had been targeted at \$57 million, amounted to a negative \$1.7 billion at end of August. Better performance would have been achieved if donor funds had been made available. This would have resulted in lower levels of

domestic financing of the budget deficit and reduced the interest bill significantly.

48. Nevertheless, there is still an appreciable decline in the budget deficit which has not been reflected in economic fundamentals. We still suffer from high inflation of around 30% with concomitant high rates of interest which are both stifling economic growth leading to high unemployment.

49. One critical area of success in Government has been the collections by the Departments of Taxes and Customs and Excise. While there are still a number of leakages in the system, the past two years have seen tremendous improvements in the collection effort. More resources have been made available to both departments to enable them to effectively carry out their functions. For every dollar of additional expenditure, Taxes have collected \$33. This year alone, revenue collections are 6% above targets.

Clearly, it makes economic sense to invest resources in these areas. I will shortly be tabling the enabling legislation for the Revenue Authority to this House, which should see further improvements in revenue collection.

50. The benefits of expenditure management are beginning to bear fruit. As at end of August 1998, expenditures were on course at \$49.4 billion.

G. THE 1999 BUDGET

51. Mr Speaker Sir, before I go into the details of my budget statement, allow me to pay tribute to this august House for initiating pre-and post-budget seminars. I have found these seminars to be useful and informative in the formulation of the budget.
52. I would also like to take this opportunity to acknowledge the role that is being played by the National Economic Consultative Forum in

generating debate on the country's economic and socio-political issues. This constructive debate enhances ownership and commitment to our development programmes amongst the various stakeholders.

53. In preparing the budget for 1999, I have taken cognisance of the following major factors, namely:-
- the problem of high interest and inflation rates;
 - rising domestic debt;
 - rising external debt as a result of the depreciation of the Zimbabwe dollar;
 - the slow down in economic activity;
 - social cost of adjustment; and
 - constrained export growth and competitiveness.
54. Mr Speaker, Sir, throughout the world, from Japan, South East Asia, Europe and the Americas, the question of a balanced budget has become central in the global political arena. It has become

increasingly clear that countries do not have an unlimited capacity to borrow, particularly for recurrent expenditure. Currently, Government is borrowing 10 cents per dollar of revenue for recurrent expenditures. This is clearly unsustainable. The only borrowings which can be justified are for capital projects which have capacity for repayment in the long term.

G.1 Revenue And Expenditure Projections

55. During fiscal year 1999, revenues are expected to amount to \$47.4 billion while expenditures will total \$57.2 billion. This will result in a budget deficit of 6 percent of GDP which is in line with the ZIMPREST target.

56. Expenditure as a proportion of GDP will decline marginally from an estimated 36.5 percent in 1997/98 to 35 percent. The primary budget balance, that is, total expenditure less revenue and

interest, is expected to be a positive balance of 0.3 percent of GDP.

H AUSTERITY MEASURES

57. In light of the decline in taxes, following the withdrawal of the War Veterans levy last year, the reduction of sales tax from 17.5% to 15% effective from next month, the suspension of the 15% tax on certain income of pension funds and the removal of the development levy on January 1 1999, there is urgent need to review expenditure policies of Government in order to eliminate the gap between revenues and recurrent expenditures.

58. Rationalisation of the Civil Service will be pursued with renewed vigour, with more than 10 000 posts being removed from the Civil Service payroll, as already announced by the Public Service

Commission. A deliberate reduction of manning levels in Foreign Missions will be central to this exercise, as it has become more difficult to finance these missions following the devaluation of the dollar.

59. Measures will also be introduced to rationalise the usage of Government vehicles across the board and on travel generally.
60. Under Education, cost saving measures to do with the funding of grants to Non-Government schools will be made together with rationalisation of examinations considered to be superfluous. The funding levels at Government boarding schools will also be reviewed on the basis of the **user-pays** principle.
61. Foreign scholarships will be limited only to critical

shortage areas, as this has become expensive due to the depreciating dollar.

62. An audit of the payroll of the whole Civil Service, including pensions and those on the Social Development Fund will be undertaken with a view to flushing out ghosts from the system. This strategy has worked well in other countries, one of which discovered that 20% of the establishment was represented by ghost workers.
63. In relation to Government guarantees to public and private sector projects, I am proposing that these be significantly curtailed as commercial failures are on the increase and the people of Zimbabwe are being asked to make tremendous sacrifices in order to support these operations.
64. There is need to rationalise use of office space in

Government. There are many vacant offices in various Government offices, yet the fiscus continues to meet huge rentals in the city centre.

I EXPENDITURE POLICY

65. Mr Speaker, Sir, in my budget statement for the current 18 month financial year, I reported that expenditures increased beyond the original budget provision mainly as a result of wage settlements and bonus awards to the civil service. The structure of the expenditure budget remains of concern to Government. The expenditure budget remains largely encumbered by non-discretionary expenditure leaving very little room for manoeuvre. For the financial year, 1997/98, some 22% is for interest on loans, 39% for the wage bill, 8% for grants and transfers to institutions such as universities, private schools and mission schools

and hospitals, 5% for pensions, 1% for constitutional and statutory payments, 11% for capital projects and only 14% remains for all other operational expenses of line Ministries.

66. In the proposed budget for 1999, the scenario has hardly changed, with interest payments consuming 18%, the wage bill 42%, grants and transfers 8%, pensions 7%, Constitutional and Statutory payments 1%, capital 12% and with only 12% remaining for operational expenses of line Ministries.

67. Clearly, Mr Speaker, Sir, the wage bill at 42% of total expenditure remains of major concern to Government. The need to right-size needs not be over-emphasised. The Public Service Commission has already reviewed the establishment of six Ministries, yielding 10 000 posts and are currently

reviewing the remaining Ministries.

Expenditure Management

68. In a bid to restructure Government expenditure to increase public investment and achieve better value for money, I have found it necessary to insist on bids that comply with the approved missions and the core business of individual line Ministries.

69. Mr Speaker, Sir, over the years much of the debate on public expenditure has centred on the adequacy or otherwise of funding, without much consideration to output. Government has already started to ensure that expenditures are related to measurable outputs based on the core functions of Ministries. I will continue to closely monitor the expenditure patterns.

Public Financial Management System

70. Government is embarking on a massive computerisation programme, which will address the problems of the current payment system centralised at the Central Payments Office. The Public Financial Management System will allow Ministries to pay their own creditors in future, and not rely on the Central Payments Office. Public finances will however remain under control, as the Ministries will be networked to the Treasury. A pilot programme with the Ministry of Education, Sport and Culture will start early next year, with rollout to other Ministries coming thereafter.
71. Progress in this area will ensure that the Public Financial Management System addresses the Millennium Bug, also codenamed the Y2K Problem, which would otherwise paralyse the

operations of Government.

72. With effect from January 1999, accounting, finance and audit functions become professionalised fields. Mr Speaker Sir, it is my fervent belief that with this development, the public will realise better management of public resources as we will attract personnel of high calibre.

Expenditure Proposals For 1999

73. Mr Speaker, Sir, my Expenditure Budget proposals for 1999 are broken down into Recurrent Expenditure and the Public Sector Investment Programme.

Recurrent Expenditure

74. I have allowed for total recurrent expenditure of

\$50,55 billion, which is inclusive of Constitutional, and Statutory obligations of \$14,267 billion. After taking into account non discretionary expenditures such as salaries, wages and allowances, Constitutional and Statutory Appropriations, of which \$10,108 billion goes into the payment of interest on debt, the other recurrent expenditure amounts to \$12,485 billion compared to \$9,317 billion in 1997/98 annualised. This is the provision that goes towards the operations of Government including transfers to Government aided organisations. It should be noted that 68% of our budget goes into non-discretionary expenditure at the expense of operations. I am hopeful that the implementation of the Civil Service rationalisation and commercialisation of non-core services will release more resources for operations and the capital budget. Cognisant of the Land redistribution programme, I have increased allocations related to

the implementation of this programme in the Ministries of Lands and Agriculture, Rural Resources and Water Development and Local Government and National Housing.

Wage bill

75. I have provided \$23,85 billion for salaries, wages and allowances. In larger Ministries such as Defence, Health and Child Welfare, Education, Sport and Culture and Home Affairs, Honourable Members will notice that salaries, wages and allowances consume over 80% of the individual budgets. The problem with such a trend is that salaries, being non-discretionary, crowd out expenditures for actual operations such as capital projects, drugs and teaching materials.
76. Mr. Speaker Sir, the wage bill claims 50,3% of total

revenue or 42% of total expenditure or 14,5 % of GDP. The exact benefits of the reduction in Ministries establishments announced recently by the Public Service Commission are still to be felt. The wage bill is likely to remain a problem area especially given the demands for improvement of conditions of service for Government employees.

77. Let me now relate the recurrent expenditures to individual votes. For the 1999 financial year, the budget has been formulated on the basis of Ministries' missions, objectives and core business. This represents the first step into the concept of budgeting for results. Ministries must, consistent with the Three Year Rolling Budgets, reprioritise and rationalise their activities in order to employ their limited resources in a more innovative and effective manner. Following the publication of mission statements by the Office of the President

and Cabinet, I expect expenditures to strictly relate to the mission and core business of each Ministry.

78. The recurrent budget continues to be dominated by the, Education Ministries, Defence, Health and Child Welfare, Home Affairs and Lands and Agriculture. These constitute 75,3% of the total recurrent expenditure excluding constitutional and statutory payments.

Education Ministries

79. The two Education Ministries, with an allocation of \$14,851 billion, account for 41% of recurrent expenditure net of constitutional and statutory provisions. Of this amount however, \$12,534 billion or 84,4%, is earmarked for salaries, wages and allowances.

Defence and Security Forces

80. The Defence Vote remains the second largest with a proposed allocation of \$5,240 billion. Our intervention in the DRC has prevented a conflict situation which would have destabilised the region and at the same time would have led to loss of life particularly in the Congo itself. We want to express our appreciation to those countries which now view our role in a positive way and are now prepared to provide financial support to our alliance.

81. Mr Speaker, Sir, I have provided \$2,622 billion for the Home Affairs Vote. This vote has gone up in recognition of the need to combat the increase in crime and rid our streets of undesirable elements. The budget allocations under this vote have been enhanced in order to allow for the preparation of

the year 2000 general elections. I have also provided funds for the replacement of the ageing Police vehicle fleet.

Health Delivery

82. Mr. Speaker, Sir, Government is committed to the improvement of health delivery. I therefore propose to allocate \$3,530 billion to the Ministry of Health and Child Welfare. I hope the Ministry will manage these funds as efficiently and effectively as possible in order to maintain good health standards. The aids pandemic has brought untold havoc on the nation, with many people now infected with this dreaded disease.

Economic Ministries

83. Mr. Speaker, Sir, I propose to allocate the Ministry

of Finance \$3,188 billion. Of this provision \$2,975 billion represents the contingency reserve which is largely made up of funds set-aside for advancements, regrading, professionalisation and unforeseen contingencies. It will be transferred to the Ministries as and when necessary.

84. I propose to allocate the Ministry of Transport and Energy \$680 million for the maintenance of public roads which are crucial for economic development. The Department of Civil Aviation is expected to become an Authority early in the financial year. I have allocated some \$106 million for this Department.

85. I also propose to allocate \$156 million to the Ministry of Mines, Environment and Tourism. This Ministry plays a major role in bringing in the much needed foreign currency through tourism.

Public Sector Investment Programme

86. I now turn to the Public Sector Investment Programme (PSIP). Under this programme, I have allocated \$6,693 billion in 1999 or 11.7% of total Government expenditure. Mr Speaker, Sir, I must point out that Government is cognisant of the fact that there is need to allocate more resources towards capital investment in order to create an enabling environment for sustained economic development.

87. Under ZIMPREST, the level of funding for capital investment is estimated to rise to 18.6% of Government expenditure by the year 2001. Meanwhile Government is currently putting in place the legal and institutional framework for private sector participation in infrastructure

development. These measures will certainly pave the way for increased investment in infrastructure and will ease the burden on Central Government.

This will also allow Government to direct more resources towards health, rural development and other sectors aimed at raising the standards of living of our people.

88. Implementation of various programmes and projects during 1997/98 has not been spared from the adverse effects of the depreciation of the Zimbabwe dollar. A number of major projects that were due for completion will have to be carried over to 1999. The lengthy transition process of handing and taking over of all construction works from the Ministry of Local Government and National Housing to the respective Ministries has compounded this. In this regard, the 1999 PSIP budget has therefore been confined to works in

progress and only a handful of new projects where commitments have already been made.

89. Meanwhile, Government is currently putting in place the legal and institutional framework for private sector participation in infrastructure development. These measures will certainly pave the way for increased investment in infrastructure provision and will ease the burden on central Government. This will also allow Government to direct more resources towards health, education, rural development and other sectors aimed at raising the living standards of our population.
90. I have allocated a substantial amount of \$1,328 billion to the Ministry of Rural Resources and Water Development mainly for the construction of major water supplies countrywide. Major dams under implementation include Tokwe-Mukorsi, Wenimbi,

Mundi-Mataga and water supply schemes countrywide. These programmes are also complemented by water schemes by the District Development Fund (DDF) which has a provision under this vote. The balance of the funding will be sourced from donors as pledged during the International Donor's Conference. The Rural Development Fund has an allocation of \$450 million for its various projects in the 8 provinces.

91. I have allocated the Ministry of Local Government and Housing \$1.542 billion. A substantial amount under this vote is for the provision of water, electricity, roads, sewerage and other urban infrastructure throughout the country. The housing programme, which is co-financed by Government and two major donors, is due for completion in 1999.

92. I have also included under this vote an amount of

\$120 million for the Integrated Rural Water Supplies and Sanitation programme whose main thrust is the provision of clean water and sanitary facilities in most of the country's districts. This programme is implemented mainly by Rural District Councils and is running smoothly.

93. Taking cognisance of the need to continuously rehabilitate our air, road and railway transport network, I have allocated \$1,004 billion to the Ministry of Transport and Energy. The total allocation including parastatals' own resources, amounts to \$2,765 billion. The major programmes under the vote include electricity generation, transport projects, road construction and rehabilitation and the construction of the new Harare International Airport, which is now well underway. The sector's requirements are way beyond what is available from central Government

and a number of initiatives involving the private sector are currently being pursued or have already been finalised. These include the New Limpopo Bridge, Heany Junction - Beitbridge rail line, the Gokwe North Power Plant and the Hwange Power Station Units 7 and 8.

94. Agriculture plays a critical role in our economy particularly given the increasing contribution of smallholder farmers. In recognition of this, I have allocated \$356 million to the Ministry of Lands and Agriculture. The Land Reform Programme has a total allocation of \$200 million of which \$150 million has been included for land acquisition. This provision also includes \$34 million for irrigation infrastructure development and \$123 million for the various technical departments that provide essential services to the agricultural sector. I have in addition provided \$55 million for the

Agricultural Services and Management Projects
which is intended for institutional development.

95. In an endeavour to maintain and improve the achievements attained in the past years in the social sectors, a total of Z\$770 million has been allocated to capital development programmes for the Ministries of Health and Child Welfare, Higher Education and Technology and Education, Sports and Culture. Of this amount, Health and Child Welfare has been allocated \$220 million for the upgrading of District hospitals, rural hospitals and health centres as well as for the construction of institutional houses to alleviate the current shortage of housing for health personnel, particularly in the rural areas.
96. I have allocated the balance of \$550 million for the construction of institutions of higher learning

namely the National University of Science and Technology, the Bindura University College of Science and Education, Gwanda Teachers' College as well as additional secondary schools in all provinces.

97. The long awaited National Investment Trust will be fully operational in 1999, Government is finalising the administrative structure of the organisation. I have therefore allocated \$150 million under my Ministry for the Trust.

98. I have allocated \$395 million to the Ministry of Home Affairs. The bulk of this allocation is for residential Accommodation for the Police Force, construction of the Interpol Sub Regional Headquarters and the combined Central Registry and Immigration Headquarters building.

99. In cognisance of the need to provide decent office and residential accommodation for our Defence Forces, I have allocated \$180 million to the Ministry of Defence for this purpose.
100. I have allocated \$370 million to the Office of the President and Cabinet of which \$250 million will see the completion of the Biotechnology Institute and the Mechanical and Building Institute at the Scientific Industrial Research and Development Centre (SIRDC).

J TAXATION PROPOSALS

101. Mr Speaker, Sir, I have already apprised the House of the general economic and fiscal situation facing us and our expectations for the future. I have highlighted the major areas that need to be addressed and the policies we should take in order

to address the short to medium term problems facing the economy. I have further emphasised the need for all stakeholders to implement ZIMPREST with renewed vigour and commitment in order to spearhead growth.

102. Mr Speaker, Sir, before I detail the taxation proposals for 1999, allow me to make a few remarks. First, fiscal adjustment is an on-going process, particularly in an economy such as ours, where demands for both social and developmental expenditure continue to claim a higher stake. Secondly, the revenue base is limited, hence the burden of fiscal adjustment will fall on expenditures in the medium term.

103. Thirdly, in order to stimulate growth, employment and competitiveness, we have learnt that it is all too important for us to give away something today

in order to receive more tomorrow. However, this will only work if there is maximum co-operation and collaboration from both labour and the private sector.

J.1 TAX PROPOSALS

J.1.1 INCOME TAX

J.1.1(a) Individuals

104. Mr Speaker, Sir, taking into account the fact that incomes in general have been eroded by inflation, and that the taxation system is regressive, I propose to increase the minimum threshold for tax purposes from \$9 360 to \$24 000 a year. This proposal will go a long way towards meeting the basic needs of the worker.

I further propose to introduce new income tax

bands to begin at \$24 000 and end at \$720 000 a year, above which income tax is charged at a rate of 40 percent plus 25 percent surcharge with effect from 1st January, 1999.

105. Mr Speaker, Sir, these proposals supersede the rates of tax I introduced last year which were to take effect from 1st January, 1999.

106. Furthermore, in order to enhance taxpayers' disposable incomes during the festive season, I propose to raise the tax-free bonus from the current \$1 100 to \$2 000, with effect from 1st November, 1998.

107. Mr Speaker, Sir, in recognition of the need to lessen the tax burden on our people, I propose to scrap the development levy with effect from 1st January, 1999.

108. Mr Speaker, Sir, I am aware of the hardships that the general population is going through especially in the area of health. In order to alleviate the burden of the cost of drugs on taxpayers, I propose to remove the current allowance which is \$1 for every \$5 of medical expenses in excess of \$250, and instead allow a credit of 50% of medical expenses incurred, with effect from 1st January, 1999.
109. Elderly taxpayers have not been spared the difficulties brought about by the unstable macro-economic environment.
110. I propose to increase the Elderly Person's Credit from the current \$200 to \$2 000 with effect from 1st January 1999. This measure will go a long way to alleviate the burden of elderly taxpayers.
111. Honourable Members may be aware that taxation of

fringe benefits of motor vehicles was changed from a dual system where deemed values or actual values could be used for determination of value through use. While this new system is fair and equitable, it has brought about a lot of inconvenience to taxpayers and employers, hence I propose to revert to the original system which is more user-friendly. Where a taxpayer does not provide documentary proof in respect of the use of an employer's motor vehicle, deemed benefit shall be as follows:-

<u>Engine Capacity</u>	<u>Value</u>
1 500cc or less	\$25 000
1 501 - 2000cc	\$40 000
2 000 - 3 000cc	\$70 000
above 3 000cc	\$100 000

112. Maximum allowed tax deductible contributions to

registered pension funds and/or retirement annuity funds are fixed at

113. \$10 000. Wages and salaries have, however, increased significantly over the years. I propose to increase the allowance to \$15 000 with effect from 1st January, 1999.

114. The minimum tax refund to tax payers is \$5 while the minimum liability payable is \$10. In order to ease tax administration, I propose to raise both amounts to \$100 with effect from 1st January, 1999.

115. Mr Speaker, Sir, current legislation provides for taxpayers to elect to be levied tax on cash in lieu of leave over a period of three years. In order to reduce administrative overheads and loss of revenue to the fiscus, I propose to tax in full, in the year of receipt, any amount received in lieu of leave.

J.1.1 (b) Companies

(i) Profits Tax

116. Branch Profits tax was introduced some time ago, the rationale being to encourage companies to register locally. This objective has been satisfactorily achieved and the tax is now being viewed as a disincentive to invest. The tax contributes insignificant amounts to total revenue, hence I propose to remove the same with effect from 1st January, 1999.

(ii) Motor Vehicles

117. Mr Speaker, Sir, I have observed during the past two years that most executives prefer to use motor vehicles such as twin cabs as opposed to the conventional passenger vehicle. The reason for this change of preference may be to combine business

with leisure. Such motor vehicles are not used as commercial vehicles, hence I propose to exclude the same from the definition of commercial motor vehicles, in line with the Customs tariff.

118. Mr Speaker, Sir, I have reviewed the capital allowance for motor vehicles and propose to increase this from \$75 000 to \$200 000 with effect from 1st January, 1999.

(iii) Construction Allowances

119. Mr Speaker, Sir, in order to enhance the quality of life for farm and mine workers, I propose to increase the allowance for the construction of clinics, hospitals and schools in commercial farming and mining areas from \$750 000 to
120. \$1.5 million. I further propose to increase the allowance for staff housing from the current level of

\$50 000 to \$100 000 and the upper limit on the construction of the staff housing from \$100 000 to \$200 000.

(iv) Livestock Allowance

121. A restocking allowance is extended to natural disasters such as droughts. I propose to extend the same to other disasters such as Newcastle and foot and mouth diseases. The gazetting of areas affected will be done upon advice of the Minister responsible for Agriculture.

122. Mr Speaker, Sir, the current definition of livestock is limited to cattle. Over the years, farmers have diversified, hence I propose to amend the definition of livestock to include sheep, goats, crocodiles, ostriches, pigs and fowls.

J.1.2 SALES TAX

123. Under current provisions, corrective measures concerning sales tax are referred to the Commissioner of Taxes for a ruling. This has proved cumbersome and I propose to amend the Sales Tax Act to provide for delegation of powers to the appropriate functional level.
124. The Sales Tax Act has provision for inclusion of Sales Tax on goods displayed by retailers. However, this legislation is sometimes not adhered to, hence I propose a penalty of
125. \$20 000 on registered operators who infringe the regulations.

J.1.2 (a) Tax on Services

126. When the Sales Tax Act was gazetted, cellular

service providers were left out and are currently not able to purchase services in the ring. I propose to amend the relevant legislation in order to allow purchases in the ring, provided such services are on-charged to the final consumer.

127. Insurance companies, broking houses, and actuarial service companies and agents are exempted from charging sales tax on services as long as these services are related to or are on behalf of a registered group pension fund. Professional fund managers or consultants have been excluded from enjoying the same privilege although they supply the same services, hence the proposal to include them with effect from 1st January, 1999.

J.1.3 CAPITAL GAINS TAX

128. Capital gains tax is currently charged at rates of 30%

on sale of immovable property, and 10% on securities traded on the Stock Exchange. The tax is payable on assessment. I propose to introduce a withholding tax on capital gains with effect from 1st January, 1999 as follows:-

- 10% on sale of immovable property; and
- 5% on disposal of marketable securities listed on the Zimbabwe Stock Exchange.

J.1.4. EXPORT INCENTIVES

129. Mr Speaker, Sir, a key element in ZIMPREST is to encourage rapid growth in manufactured exports, through promotion of Export Processing Zones and enhancing export facility schemes which are designed to enable exporters to access inputs at world prices. I therefore propose the following measures :-

J.1.4 (a) Income Tax

130. It is proposed that companies which export 50% or more of their manufacturing output be taxed at a rate 8 percentage points below the prevailing rate of corporate tax with effect from 1st January, 1999.

131. New companies starting production as from 1st January, 1999 and exporting at least 40% of their manufacturing output, will be taxed at a rate 10 percentage points below the prevailing rate of corporate tax with effect from 1st January, 1999.

132. In order to foster employment growth, I propose to allow a double tax deduction on wages and salaries for an additional 50 or 25 percent of permanent employees engaged by manufacturing companies with effect from 1st January, 1999.

133. However, no deduction will be made if it would result in the company making an assessed loss.

K. CUSTOMS PROPOSALS

K.1 Duty Drawback

134. Mr Speaker Sir, I am aware of the problems being experienced with our duty drawback system which is meant to assist small and irregular exporters recover their duty payment when exports have been incurred. I am therefore proposing a fast track system which is intended to reduce the waiting time from the moment the exporter lodges a refund claim and the time the refund is paid. The duty drawback system will be computerised during 1999 thus enabling speedier processing of refunds for all exporters.

135. This facility, which will be on a pilot basis and available to exporters with a proven track record, will enable exporters to receive refunds on duty drawback within a period of 60 days. The Director of Customs and Excise will work out the operational details to bring into effect this measure. Because the scheme will depend very much on trust, abuse of the system will result in a penalty equal to 150 percent of the duty at stake and/or the withdrawal of the exporter's licence. The duty drawback scheme will be computerised during 1999.

K.2 Inward Processing Rebate Scheme

136. The current economic conditions have imposed some difficulty on the ability of companies to raise funds

in the market. I am therefore proposing the reduction of the bond guarantee required for companies to access the Inward Processing Scheme from the current level of 50% to 30% of the duty due.

K.3 Export Processing Zones

137. The development of Export Processing Zones (EPZs) has taken the form of stand - alone EPZs due largely to lack of resources on the part of Government to develop industrial parks. In line with the spirit of partnership and co-operation between the private and public sector, I am proposing to extend the incentives under Build - Operate - Transfer (BOT) projects to developers of industrial parks. Incentives available to BOT projects are as follows:-

- tax holiday for the first 5 years;
- tax at a rate of 15% for the next 5 year,

thereafter, the prevailing corporate tax rate applies.

K.4 Introduction of Admission of Guilt Procedure

138. A number of offences are committed by travellers at our borders and entry points regarding the declaration of goods brought into the country. The situation is further worsened by the bureaucratic procedures in the Customs and Excise Act in dealing with the offenders. I am therefore proposing to introduce Admission of Guilt Procedures which will enable the Department of Customs and Excise to impose appropriate penalties once the traveller has admitted to being guilty of the offence. This will facilitate speedy clearance of travellers on-site as opposed to the current system

where falsely declared goods are seized and have to be cleared at a much later date and in some cases calling for extensive travel to the entry point to clear the goods. The same will apply to commercial importations.

139. I am further proposing to extend similar arrangements to importers of commercial goods through amendment of the Customs and Excise Act to enable the Department of Customs to release the goods under a cash deposit, pending error correction and payment of the appropriate duty and fine. Under the current system, if a commercial importer makes an error on the bill of entry, the Department of Customs is required to seize the goods and hold them until the error has been corrected and a fine paid. The new measure will assist industry significantly. However, industry is urged to significantly reduce the errors and avoid

paying fines, thereby lessening the administrative burden on the Department of Customs.

K.5 Travellers and Gift Rebates

140. The travellers and gift rebates were last increased in 1994 from \$500 and \$100 to the current levels of \$2 000 and \$800 respectively. I am proposing to fix the rebate at US\$250 in order to cushion travellers against the effects of inflation and exchange rate fluctuations. The gift rebate will be pegged at US\$75. Furthermore, the amount of local currency that may be exported or imported by travellers will be increased from \$500 to \$2 000.

K.6 Customs Duties

141. Mr Speaker, Sir, I propose to change the duty on

diesel, petrol and other fuels from specific duty to ad valorem. The current rates of duty on fuel are 50 cents per litre or 38% ad valorem on diesel; \$1,40 per litre or 53% ad valorem on petrol; and 75 cents per litre or 15% ad valorem on both illuminating paraffin and jet fuel. The new duty rates will be as follows: diesel fuel 40%; petrol 55%; illuminating paraffin 15% and jet fuel 40%.

This measure will come into effect from mid-night today.

142. Currently, electrical goods and passenger motor vehicles imported into the country in completely knocked down form for purposes of assembly, are cleared under conditional entry tariff at 10%. To facilitate importation of such goods, I propose to extend the rebate of duty currently available to assemblers of commercial vehicles. The effect of this measure is that the importers will not pay duty

on these imports. This will go a long way in stimulating economic activity for domestic producers of these goods, thereby enhancing employment opportunities in the industry.

K.7 Excise Duty

143. Mr Speaker, Sir, excise duty on locally produced beer and spirits was last reviewed in 1995. Excise duty on most wines was removed in 1994 when the local industry operations became unsustainable following the effects of the drought experienced in 1992. The situation has improved significantly and I propose to introduce excise duty on most wines at the rate of 5 percent. Duty on clear beer and aerated beverages will increase by 2.5 percentage points to 80 percent and 25 percent respectively. I further propose to increase duty on cigarettes from 80 percent to 85 percent.

K.8 Clearance of Small Consignments

144. At present, only goods with a value below \$200 can be cleared without a bill of entry. This threshold has been in existence for some time and is now outdated. In order to speed up the clearance of small

value consignments imported by companies or commercial concerns, I propose to increase the threshold to \$5 000.

K.9 Clearance Fee

145. The current fee charged on the bills of entry processed by the Department of Customs and Excise is \$50. I propose to increase the fee to \$100 per bill in line with increased administrative costs.

146. Mr Speaker Sir, I now lay the Budget Estimates for the year ending December 1999 on the table.

L CONCLUSION

112. We have recently held discussions with the Bretton Woods Institutions. Both the IMF and the World Bank have been satisfied with Zimbabwe's economic management. They are committed to continue providing development and balance of payments as well as technical assistance to Zimbabwe. The IMF is considering the disbursement of the second and third tranches of the Stand-By Arrangement and will be accordingly taking the issue to the Board around mid-November. The Board decision will trigger the release of a total of 392 million SDRs (approximately US\$53 million (Z\$1.9billion)). At the same time, the World Bank is dispatching a mission at the end of October/ early November 1998 to undertake negotiations for a third structural

credit of about US\$300 million which should be disbursed by end of the year.

113. Mr Speaker Sir, I have endeavoured to outline the economic and social environment prevailing in the country. As I have indicated bold and decisive actions are urgently needed to safeguard our hard-earned achievements. The general macroeconomic instability characterised by high inflation, an unstable exchange rate, poor export performance and high unemployment remain our number one challenge. The budget, Mr Speaker Sir, is an important instrument to address these problems, together with other strategies Government has outlined in ZIMPREST.

114. I am encouraged by the diversity and depth of the ongoing dialogue and consultation between Government, the private sector and civil society on current economic issues. This consultative process,

involving Honourable members, the National Economic Consultative Forum and other stakeholders has immensely enriched this budget. This has enabled us to harness fully the resourcefulness of our people in solving national problems.

115. Mr Speaker Sir, the challenges we face in the year ahead are immense, but not insurmountable. I urge all Zimbabweans to play their role in contributing to economic growth in order to improve the standards of living of our people. Government remains fully committed to the reform process and will do everything in its power to foster a stable macroeconomic environment to stimulate greater investment, employment and economic growth.

I THANK YOU

