

EMBARGOED TILL END OF DELIVERY



ZIMBABWE

# ***THE MILLENIUM BUDGET***

## **BUDGET STATEMENT 2000**

**Presented to the Parliament of Zimbabwe  
on Thursday October 21, 1999**

**By**

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

# **BUDGET STATEMENT 2000**

## **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, the budget that I am presenting today marks the final phase of ZIMPREST and the beginning of the new millenium.
3. As the new millenium approaches, we should take stock of our achievements and challenges since the introduction of economic reforms.
4. Inflation remains our number one enemy in the fight against poverty and unemployment. Against this macroeconomic environment, it has been difficult to pursue the goal of socio-economic transformation and sustainable growth.

5. As we step into the new millenium, we must turn the economy around to restore macroeconomic stability. This demands a change in the way we do business. We have to re-order our priorities and improve fiscal management. I will spend some time on this subject when I discuss the budget framework for the year 2000.
6. Mr Speaker, allow me to outline the prospects and challenges in the global economy, current macroeconomic performance and the outlook for the millenium budget.

## **C. GLOBAL AND REGIONAL ECONOMIC ENVIRONMENT**

### **Global Environment**

7. Mr. Speaker, Sir, the growth of the world economy is estimated to increase from 2.5% in 1998 to 2.8% in 1999 and further to 3.4% by the year 2000. At the same time, Africa's output is estimated to grow from 2.8% in 1999 to 4.9% by the year 2000. This growth is underpinned by the increase in the volume of world trade from 3.3% in 1998 to an estimated 3.8% in 1999 and is forecast to increase further to 5.8% in the year 2000.
8. Mr Speaker, global inflation is on the decline. In advanced economies, it will be around 1.7% next year while in developing economies it will decline to 7%. Closer home, inflation in the SADC region is on a downward trend, while in Zimbabwe it continues to increase. The inflation differential between us and our trading partners is

widening and eroding export competitiveness. It is therefore paramount that we bring down domestic inflation.

#### **D. RECENT ECONOMIC DEVELOPMENTS**

##### **Real Sector**

9. Mr. Speaker, Sir, the economy has this year been experiencing a slowdown with growth estimated at 1.2% compared to 1.5 % in 1998. This weak economic performance largely stems from high levels of inflation and interest rates and foreign exchange shortages as a result of low commodity prices of our major exports. These difficult economic conditions have undermined growth in the key sectors of the economy.
10. The agricultural sector is estimated to grow by 3.5% compared to an initial estimate of 4.9%. A much higher growth would have been achieved had it not been for the incessant rains received in the 1998/99 season, high input costs and reduced hectarage.

11. The manufacturing sector is estimated to grow marginally by 1%. This is due mainly to increased input costs and low effective demand. The marginal growth incorporates the increase in output from ZISCO Number 4 Blast Furnace.
12. In the mining sector, depressed commodity prices, coupled with the closure of the BHP Mine, accounts for a low growth of 1%.
13. The construction sector is projected to grow by 1.5%. The low growth is explained by the suspension of mortgage finance and increased input costs in the industry.

### **Inflation**

14. Mr. Speaker, as I have already indicated, inflation remains our number one enemy. Like high blood pressure, it is a silent killer. Inflation was 44.6% in December 1998 and has soared to 69.7% as of last month.
15. There are many sources of inflationary pressures in the economy. Some of these can be attributed

to imported inflation following the depreciation of the dollar. Another source is the tendency by the business community to profiteer, particularly where choices are limited.

16. Mr Speaker, over-reliance on domestic borrowing and printing of money to finance the deficit has an adverse impact on money supply. Cost of living wage adjustments have also added to the wage-inflation spiral.
17. Inflation erodes savings and has impoverished people on fixed incomes. It is adversely affecting commerce and industry and renders difficult any attempt to kick start small to medium scale enterprises. Borrowing is no longer a viable option as interest rates become prohibitive. Under these circumstances, the economy cannot grow and job opportunities become even more distant to the ever growing list of school leavers.

## **Monetary Developments**

18. Mr. Speaker, money supply rose from 18.2% in June 1998 to 44.1% in June, 1999 against a target of 18.9%. The growth in money supply was a result of an upsurge in net credit to Central Government and credit to banks experiencing financial difficulties.
19. To curtail the growth in money supply, the Reserve Bank implemented a restrictive monetary policy in a bid to contain inflation. The Bank rate was increased from 39.5% in January to 56.7% in August. At the same time, the statutory reserve requirement for commercial banks was increased from 25% to 30%.
20. As a result, interest rates have risen to punitive levels, with commercial lending rates increasing from 40.5% at the start of the year to the current level of above 60%. In spite of these measures, money supply growth did not come down as intended largely because of high domestic financing of the budget deficit.



21. Mr Speaker, I am concerned at the high spreads between lending and deposit rates prevailing in the financial sector. While banks pay as little as 10% on demand deposits, they enjoy very large margins which, in some cases, are as high as 40%. The banking industry should raise rates on demand and savings deposits to as close to their lending rates as possible, taking into account the cost of maintaining these accounts.

### **Balance of Payments**

22. Mr. Speaker, Sir, the balance of payments position has been characterised by persistent foreign exchange shortages. This resulted in temporary delays in honouring external obligations.
23. The deterioration in the balance of payments emanated from the fall in prices of our major export commodities. The price of gold, which had fallen to US\$287.2 per ounce in January declined further to US\$255.6 per ounce

following the sale of gold on the international market by the Banks of England and Switzerland. However, the price of gold has begun to firm up.

24. While imports have been somewhat suppressed, due mainly to the depreciated local currency and the tariff increases effected in September 1998, exports failed to increase following currency depreciation. The increase in input costs arising from high inflation and interest rates prevented exporting firms from taking advantage of the exchange rate depreciation.
25. The improvement in capital inflows, coupled with the re-introduction of Foreign Currency Accounts in August should assist in the build-up of foreign exchange reserves. However, exporters are expected to make timely releases of foreign currency on the market in order to avoid artificial shortages.
26. After recording a deficit of US\$204 million in 1998, the overall balance of payments is

projected to record a small surplus of US\$86 million as a result of improved capital flows.

## **E. FISCAL DEVELOPMENTS**

### **Review of the 1999 Budget**

27. Mr. Speaker, Sir, the improvements in fiscal performance in the 1997/98 budget as reflected by a reduction in the budget deficit to 6.4% of GDP, were expected to continue in 1999. We had targeted a deficit of 5% of GDP predicated on an average inflation level of 38.6% and real economic growth of 3.2%. The persistently unfavourable macroeconomic environment will, however, result in a lower growth of 1.2% and a rise in inflation to an estimated average of 57%.
28. Mr Speaker, I will soon be coming to this august House with supplementary estimates of expenditure. These have been necessitated by the following:-
- cost of living wage increases of 17%;

- increase in expenditures on operations, goods and services due to the persistently high inflation rates; and
- increase in the domestic interest bill arising from over-dependence on domestic bank borrowing at very high Treasury Bill rates.

29. Mr. Speaker, Sir, revenue collections in August amounted to \$35.6 billion, while total expenditures were \$48.6 billion. Total expenditure overshoot the target by \$6 billion. This resulted in a budget deficit of \$13.0 billion excluding grants, which is 9% of GDP.

30. Mr Speaker Sir, I now estimate to collect \$57.9 billion from an initial \$47.4 billion. The total expenditure and net lending is estimated to be \$74.1 billion, up from \$57.2 billion. Consequently, I now estimate a budget deficit of 7.5% of GDP for the current fiscal year.

## **Budget Deficit Financing**

31. Mr. Speaker, as at end of August, net foreign financing fell short of target by \$6.3 billion. This was mainly due to the delay and non-disbursement of donor resources. The low level of foreign financial inflows meant that we had to finance the budget deficit from the domestic market from which \$15.5 billion was raised against a target of \$4.4 billion.

## **Public Debt**

32. Mr Speaker, Government debt stood at \$146 billion or 67.7% of GDP as at June 30, 1999. This debt has been accumulated over several years. Of concern, however, is the servicing of domestic debt at current interest rates of over 50 percent. I now expect a domestic interest bill of \$21.6 billion against an initial estimate of \$10 billion.
33. This trend must be arrested through stringent budget discipline. I also intend to use donor

resources and proceeds from the sale of Government assets to reduce the current stock of domestic debt.

### **Public Enterprises**

34. Mr. Speaker, the financial performance of public enterprises has been, for a long time, a cause for concern. Major public enterprises which include ZISCO, NOCZIM, PTC and ZESA had already accumulated losses amounting to about \$14.8 billion as of June 30, 1999.
35. His Excellency the President has recently appointed a high level Cabinet Committee, chaired by the Vice President, to monitor and supervise the performance of parastatals with a view to restoring financial viability to this sector. Government has since established the Privatisation Agency in the Office of the President and Cabinet to speed up the privatisation of public enterprises through provision of the necessary technical services. I

expect to raise over \$5 billion in privatisation proceeds from the accelerated sale of public enterprises and Government shares in private companies over the next three years.

36. Mr Speaker, I am pleased to report that the board of the National Investment Trust (NIT) is now in place and operational. I am encouraged by the pace of indigenisation in sectors such as banking, insurance, transport, agriculture and construction. It is my hope that the NIT will build on this momentum.

#### **F. THE 2000 BUDGET**

37. Mr. Speaker, Sir, let me hasten to say that the 2000 budget should launch the economy into the next millenium where challenges of poverty reduction are going to take centre stage. The measures I am proposing in the budget should therefore:-

- achieve a stable macroeconomic environment with low inflation and interest rates;
- improve capacity utilisation in industry;
- stimulate investment and savings;
- foster a stable and healthy balance of payments position through enhanced exports; and
- create opportunities for employment.

### **Revenue and Expenditure Projections**

38. Mr. Speaker, Sir, in making this presentation, I wish to express my appreciation to this august House, the private sector and civil society for the very fruitful consultations we had during the pre-budget meetings.
39. Mr Speaker, I expect to raise revenues to the tune of \$87.3 billion. I have allowed total expenditure and net lending amounting to \$98.7 billion. This results in a budget deficit of \$11.4 billion, or 3.8% of GDP.



## **Expenditure Policy**

40. Mr Speaker, Treasury is facing serious difficulties in the management and execution of the budget. Currently, the budget is characterised by:-

- a mismatch between available resources and expenditure demands;
- an increasing fixed cost component of the budget such as pensions, salaries and interest on debt, which is consuming 60% of total expenditure; and
- dwindling allocations to the developmental budget.

41. Mr Speaker, Sir, in order to contain the budget deficit in line with ZIMPREST objectives, Government has adopted a number of measures. These include limiting borrowing to concessional financing of the capital budget only. Recurrent expenditure will be met from regular revenues. Under this policy, there will be

a deliberate shift in expenditures towards social service delivery over the next three years.

### **Recurrent Expenditure**

42. Turning to recurrent expenditure, I have allowed for \$90.7 billion which is inclusive of Constitutional and Statutory obligations of \$33.6 billion.
43. After taking into account Constitutional and Statutory Appropriations, Salaries, Wages and Allowances, other recurrent expenditure amounts to \$23.4 billion. The provisions under this category include grants to Government-assisted institutions, maintenance of infrastructure and operations of Government.
44. On individual votes, Mr Speaker, Sir, the combined Ministries of Education account for 19% of the total budget with 14% going towards salaries, wages and allowances. I have provided substantial amounts for operations in order to improve the quality of teaching and learning. I

have allocated \$2 billion for the State Universities.

45. Over and above this allocation, schools are now retaining tuition and boarding fees which has enhanced resources for use at the schools.
46. The Defence Vote has once more taken the second largest share of the recurrent expenditure budget with an allocation of \$8.2 billion, 68% of which is for salaries, wages and allowances. The Peace Accord signed by all parties involved in the Democratic Republic of Congo conflict should result in a steady decline in the allocation to this vote.
47. Mr Speaker, Sir, the high incidence of diseases, in particular the AIDS pandemic, is putting enormous pressure on the Health vote. I will return to this subject later in my presentation. Mr Speaker, I propose to allocate \$6 billion to this vote of which 41.6% is for operations and 24.4% for grant-aided hospitals and the remaining 34% going to salaries, wages and

allowances. In making this allocation, I am mindful of the need to improve maintenance of hospital equipment, availability of drugs and the general upkeep of hospitals. Despite the difficulties being experienced by the health sector, Mr. Speaker, Sir, I am concerned that drugs worth millions of dollars are expiring on the shelves at the Medical Stores. There is urgent need to review the continued existence of this institution.

48. Mr. Speaker, I propose to allocate \$3.7 billion to the Ministry of Home Affairs. This allocation should go a long way in enabling the Police to combat crime and allow the generality of the public to go about their daily activities without fear. The allocation includes provision for the General Elections and Referendum on the proposed new Constitution.
49. I am proposing an allocation of \$1.8 billion for the Ministry of Lands and Agriculture. This allocation takes cognisance of the need to

encourage increased agricultural output by communal and small scale producers in order to reduce dependency on food handouts. I have therefore substantially increased the operational budget for the Departments of Veterinary Services, Agritex and Research and Specialist Services.

50. Due to economic hardships and the AIDS scourge, the Ministry of Public Service, Labour and Social Welfare has had to shoulder added responsibilities in looking after AIDS orphans and the economically disadvantaged. I therefore propose to allocate \$1.8 billion to this Ministry.
51. Despite the substantial reduction in the establishment, the budget for the Ministry of Foreign Affairs continues to grow due to the nature of expenditures which are largely in foreign currency. I therefore propose to allocate \$1.5 billion to this Ministry.

## **Public Sector Investment Programme**

52. Mr Speaker, Sir, I now turn to the Capital Budget. I am fully aware of the critical role that the Public Sector Investment Programme plays in the provision of infrastructure. The allocation for the capital budget has continued to decline as a proportion of total expenditure due to unavoidable demands on the recurrent budget.
53. In this regard, the proposed total capital budget, excluding financing from own resources of some parastatals, amounts to \$8 billion. This represents a nominal increase of 20% from the current budget. Of this amount, \$1.9 billion is expected from external resources.
54. Turning now to the individual vote allocations of the Public Sector Investment Programme, I have allocated an amount of \$450.4 million to the Ministry of Lands and Agriculture. I propose to allocate \$200 million for the land acquisition programme, \$75.9 million to Agritex, and \$16.4 million to ARDA.

55. In order to accelerate the rehabilitation of the transport network, the Transport and Energy Ministry has been accorded high priority with an allocation of \$1.1 billion. A large portion of this provision amounting to \$565.6 million will go towards construction of roads and bridges. The Harare International Airport project, scheduled for completion in the year 2000, has been allocated \$312.4 million. Mr Speaker, Sir, investment requirements in this sector are well beyond what the central Government can provide. A number of initiatives such as the New Limpopo Bridge, and Heany Junction-Beitbridge rail line are being pursued.
56. Mr Speaker, as part of an effort to improve water supply and accelerate rural development throughout the country, I propose to allocate a substantial amount of \$2.1 billion to the Ministry of Rural Resources and Water Development. Of this amount, \$1.4 billion is earmarked for the construction of major water

supplies. The major dams under construction include Tokwe Murkosi, Wenimbe, Mundi-Mataga, Ruti, Mpudzi and Sadza. Other water supply schemes such as the Nyamandhlovu Acquirer are in progress while the Gwai-Shangani, Mtshabezi pipe line and Guruve irrigation will start in year 2000. These programmes are also complemented by water supply schemes and rural development projects funded through the District Development Fund and the Rural Development Fund for which I propose a provision of \$320 million and \$450 million respectively.

57. I propose to allocate \$1.5 billion to the Ministry of Local Government and National Housing for the provision of general infrastructure development in urban and communal areas. The total provision of \$892.7 million is intended for water, electricity and other urban infrastructure development requirements throughout the country. The balance of \$636 million has been



allocated for construction of houses and Government buildings in various towns.

58. Under the Ministry of Industry and Commerce, I propose to allocate \$395.4 million of which \$340.4 million is for payment of called-up Government guaranteed loans for ZISCO.

59. The Ministry of Health and Child Welfare has been allocated \$206.5 million to rehabilitate central hospitals, upgrade provincial and district hospitals and Rural Health Centres as well as procure vehicles to alleviate the transport situation in that sector.

60. The Ministry of Higher Education and Technology has been allocated \$781.6 million for the construction of Gwanda Teacher's College, UNESCO local offices, Bindura University's sports facilities, procurement of laboratory equipment and development of the masterplan, completing the Anatomy and Physiology department for the University of Zimbabwe and continuing with construction

works at the National University of Science and Technology (NUST).

61. Taking cognisance of the inadequate provision of accommodation for the Police and Prisons services, I have allocated \$248 million towards the improvements of these facilities.
62. Mr. Speaker, Sir, under the Ministry of Defence I propose to allocate \$144 million for construction works. The allocation represents a decline of 20% from the current \$180 million.
63. I propose to allocate \$199 million to the Office of the President and Cabinet of which \$144 million is for the Mechanical and Building Institute at the Scientific Industrial and Research Development Centre (SIRDC).

## **Financing**

64. The financing requirement under this budget is \$11.4 billion or 3.8% of GDP. I intend to raise \$1.5 billion from the sale of assets and \$2.9 billion from external grants. I propose to finance the balance through issuance of short to medium term paper on the domestic market.

## **Public Financial Management System Project**

65. Mr Speaker, Sir, I am pleased to report that significant progress has been made in the implementation of a new computerised accounting and expenditure management system. The system is now being pilot-tested and customised within the Ministries of Education, Sport and Culture and Finance and will be rolled out to the rest of Government in the year 2000. The new system, which will be networked to the Treasury, will enhance the monitoring and management of finances. Under this system, payments to creditors will be

decentralised to line Ministries. I look forward to the full co-operation of all key stakeholders to make this new initiative a success.

## **G. FINANCIAL SECTOR REFORM**

66. Mr Speaker, our financial sector remains sound and vibrant. The collapse of one Merchant Bank last year however underscored the need for the revitalisation of the regulation and supervision of financial institutions. The new Banking and Reserve Bank Acts will strengthen the regulation and supervision of deposit-taking institutions. The new legislation will ensure the enforcement of minimum capital adequacy requirements and prudential guidelines for loan classification and provisioning. Institutions found insolvent are to be restructured or left to close. No public funds will be used for bail out beyond the provision of short-term liquidity support by the Reserve Bank.

67. With regards to the Insurance and Pension funds industry, I will this session be tabling a new Insurance and Supervisory Bill, which will provide for the establishment of an autonomous Insurance and Pension Supervisory Commission. The Bill will provide for a robust Commission to effectively supervise and monitor the industry.
68. Work on the Securities Bill to replace the current Stock Exchange Act is on-going. The proposed Bill will not only bring in line our legislation with modern practices, but will first and foremost address issues of transparency and accountability.

## **H. TAXATION PROPOSALS**

### **INCOME TAX**

#### **Individuals**

69. Mr Speaker, Sir, disposable incomes of consumers have been eroded by record levels of inflation experienced during the course of the year. In order to ameliorate the adverse impact of high inflation on taxpayers, in particular the poor, I propose to alter bands used in the calculation of income tax to begin at \$30 000 and end at \$720 000 per annum, above which income tax is charged at a rate of 40 percent plus a 25% surcharge with effect from 1<sup>st</sup> January 2000.
70. I further propose to increase the tax-free bonus from \$2 000 to \$3 000 with effect from 1<sup>st</sup> November 1999. This will enhance the

disposable incomes of consumers during the festive season.

71. Mr Speaker, the high inflation I have already alluded to has seriously affected vulnerable groups in our society, especially the elderly and disabled. In order to assist in improving the quality of life of our senior citizens and the handicapped, I propose that the Elderly Persons Credit be increased from \$2 000 to \$3 000 and the Disabled and Blind Credit from \$1 500 to \$3 000 with effect from 1<sup>st</sup> January 2000. I further propose that the amount deductible on pension receipts by pensioners who are 60 years and above be increased from \$3 000 to \$12 000 with effect from the same date.

72. Mr. Speaker, tax exemption is provided on amounts received or accrued by way of commutation of a pension or annuity, which is paid from the Consolidated Revenue Fund, other than a Retirement Annuity Fund, to the extent that the amount received does not exceed

\$10,000 or one third of the total value of the pension or annuity commuted, whichever is greater.

73. Tax exemption is also provided on the first ten thousand dollars or one third, whichever is greater, of the amount of any severance pay, gratuity or similar benefit, other than a pension or cash in lieu of leave, which is paid to an employee on the cessation of his employment where his employment has ceased due to a retrenchment under a scheme approved by the Minister responsible for labour or the public service. The exemption shall apply only in respect of the first hundred thousand dollars of any such pay, gratuity or benefit payable in any year of assessment.

74. I propose an amendment to the legislation in order to increase the tax-exempt amount from \$10,000 to \$20,000.

75. Mr Speaker, due to the high incidence of disease, in particular the AIDS pandemic, the



health sector has become seriously under-funded. The situation has been worsened by the escalating cost of drugs in the face of a depreciated currency and strong cost-push inflationary pressures. In order to increase financial resources available to the sector, I propose that with effect from 1<sup>st</sup> January 2000:-

- an AIDS levy calculated at 3% of PAYE and corporate tax be introduced. Resources from this fund will be used to finance AIDS – related programmes.
- a taxpayer who donates funds to referral and mission hospitals for the purchase of new medical equipment, construction of hospital buildings and procurement of drugs, be granted a tax deduction equivalent to 100% of the cost of the donation up to a maximum of \$10 million. The Commissioner of Taxes and the Minister of Health and Child Welfare will determine the items that qualify for the deduction.

76. Mr Speaker, our tax officers spend a disproportionate amount of their time assessing individual income tax return forms. However, the additional collections arising from these assessments do not, in most cases, justify this effort. The tax officers would be better utilised in audit and investigation work, which has the potential of yielding significantly more revenue. In order to make use of the available human resources more efficiently and effectively, I propose that a Final Deduction System be introduced with effect from 1<sup>st</sup> January 2000. The proposed system would make PAYE final for selected individual taxpayers. This measure will ensure the release of resources needed to enhance the audit and investigation functions, which will now focus on the employer.

I therefore propose amendments to the legislation in order to:-

- allow the Commissioner of Taxes to determine classes of taxpayers who would not submit returns; and
- authorise employers to make refunds to employees where such refunds are applicable.

77. The maximum penalty that can be imposed for late remittance of PAYE by collecting agents is 15% of the amount due. It has been noted, with concern, that collecting agents are using PAYE for working capital purposes. I therefore, propose to increase the penalty to 100% with effect from 1<sup>st</sup> January 2000.

### **Export Incentives**

78. Mr Speaker Sir, in the 1999 budget, I introduced specific export incentives for the manufacturing sector. I have since reviewed these measures following consultations with stakeholders.

79. I therefore propose that the export incentives introduced last year be replaced by the following, with effect from 1<sup>st</sup> January 2000:-

- a manufacturing company which exceeds the level of manufactured exports achieved during the previous year by 20 percent in terms of a recognisable hard currency, should be taxed at a rate 10 percentage points lower than the prevailing corporate tax rate for the profits attributable to the incremental exports.

### **Growth Points**

80. Mr Speaker, most small towns have been receiving very little investment due to the unfavourable macro-economic environment. In order to boost business activity in these towns, I propose with effect from 1<sup>st</sup> January 2000 that growth point status for tax purpose be accorded to the following small towns:-

Chinhoyi, Karoi, Chivhu, Marondera, Bindura, Mount Darwin, Mvurwi, Zvishavane, Mashava,

Masvingo, Chiredzi, Hippo Valley, Gwanda, Plumtree, Nyanga, Rusape, Hwange, Lupane and Mhangura.

81. I will soon gazette a legal instrument to put this into effect.

### **TOBACCO LEVY**

82. Mr Speaker, in the 1997/98 budget, I introduced a tobacco levy at a rate of 5 percent on producers and 5 percent on merchants. Following consultations with stakeholders, I promised to table a proposal to this august House for a 50 percent reduction of the levy. In line with this promise I made in June this year, I propose that the levy be reduced with effect from 1<sup>st</sup> January 2000 to 5 percent which will be shared equally between merchants and growers.

## **SALES TAX**

83. Hon. Members may recall that I made a proposal to reduce sales tax on computers from the 25% to the 15% category, which has since been implemented. In view of the urgent need for computers to be Y2K compliant, I propose to remove shrink-wrapped software from the 25% to 15% sales tax category.
84. Mr Speaker, the current procedure as regards accrual of interest on outstanding sales tax is that it only becomes due after the date of notice of assessment. I propose to amend the Sales Tax Act so that interest becomes payable from the date the tax should have been paid, with effect from 1<sup>st</sup> January 2000. I have no doubt that this measure will enhance the flow of revenue to the fiscus.
85. The office of the Commissioner of Taxes has often encountered difficulties due to lack of a

contact person, in their efforts to collect sales tax. I therefore propose amendment of the Sales Tax Act to provide for appointment and approval of public officers who will be responsible for sales tax issues in all institutions or companies that collect sales tax.

## **CAPITAL GAINS TAX**

86. During the course of 1999, I put in place measures to improve the collection of capital gains tax. In order to further enhance collection of this tax, I propose to make a provision for the registration of depositories who hold funds for payment of immovable assets in trust with effect from 1<sup>st</sup> January 2000.
87. Mr Speaker, the Capital Gains Tax Act has a provision whereby a taxpayer can elect to roll over proceeds derived from a principal residential house, provided such proceeds are utilised to acquire another principal residential

house. It has been observed that such election is normally exercised after an assessment has been made, thereby rendering redundant administrative work that would have been undertaken. I therefore propose to amend the legislation so that the election to roll over would be made prior to assessment with effect from 1<sup>st</sup> January 2000.

## **TREASURY BILLS**

88. Mr Speaker, the current withholding tax on Treasury Bills is 15%. Before the introduction of withholding tax on Treasury Bills, a rate of 35% was applied on the interest earned from the same instrument. Revenue yield from Treasury Bills has been very low, despite the fact that the instrument is actively used to finance the budget deficit.
89. In order to enhance revenue to the fiscus, I propose to raise the rate of withholding tax on



interest paid on Treasury Bills from 15% to 30%, with effect from 1<sup>st</sup> January 2000.

## **STAMP DUTY**

90. Mr Speaker Sir, in an endeavour to improve the housing situation, players in the mortgage market have indicated their willingness to form a secondary mortgage market. The creation of this market will go a long way in improving the availability of mortgage funds. In order for this market to start operating, I am proposing to waive stamp duty on cession of mortgage bonds with effect from 1<sup>st</sup> January 2000.
91. Mr Speaker, Sir I am also proposing an upward review of stamp duty on ATM and cheque transactions from 15 cents to 80 cents with effect from 1<sup>st</sup> January 2000.

## **ESTATE DUTY**

92. Mr Speaker, rebates used in the calculation of estate duties have not been reviewed since 1995. Existing thresholds are \$125 000 where there is no surviving spouse and \$250 000 where there is a surviving spouse. In view of the escalating value of assets in a highly inflationary environment, I propose to increase the rebates to \$250 000 and \$400 000 respectively with effect from 1<sup>st</sup> January 2000.

## CUSTOMS PROPOSALS

### Fuel

93. Mr Speaker, Sir, during my budget presentation last year, I announced the intention to change the basis for collecting duty on petroleum products from specific to *ad valorem*. The duties were to be as follows:-

Diesel	40%
Petrol	55%
Illuminating paraffin	15%
Jet A1	40%

94. The new duties were, however, not implemented due to administrative problems. The *ad valorem* rates I announced would have led to unintended increases in the price of fuel. However, the failure to implement *ad valorem* rates without at the same time increasing specific duties, led to erosion of the revenue base on petroleum products as fuel prices have almost doubled in the intervening period.

95. I therefore propose to introduce, with effect from midnight, the following *ad valorem* duties:-

Diesel	25%
Petrol (leaded)	40%
Petrol (unleaded)	45%
Jet A1	40%
Illuminating Paraffin	20%

### **Clearing Agents**

96. Mr Speaker, clearing agents play a vital role of third party duty collection on behalf of Government. It has been observed that this role is being tarnished by some agents who are engaging in fraudulent activities in the declaration and payment of duties. In order to arrest this adverse development, I propose that Customs and Excise legislation be amended to provide for the registration of clearing agents with effect from 1<sup>st</sup> January 2000.

## **UNAUTHORISED PRINTING OF SECURITY FORMS**

97. Mr Speaker, due to economic hardships, fraudulent activities have been increasing. It has been observed that private individuals are printing security forms for sale to the public. Forms such as the P6 have been used to perpetrate fraud. I therefore propose an amendment of all relevant legislation to make it illegal for any person to print tax forms without the written authority of the Commissioner of Taxes.

### **J. CONCLUDING REMARKS**

98. Mr Speaker, Sir, on the eve of the millenium, and the inevitable consolidation of the globalisation process, we must confront the challenges boldly. What is clear is that Zimbabwe must effectively compete in

increasingly more open regional and global markets.

99. However, there will certainly be greater competition for investment resources, technology and skills especially within our region. We have to adapt and adapt quickly to the changing global environment.

100. The reforms we embarked on in 1990 to open up the economy have unleashed entrepreneurship, ingenuity and competition. However, macro-economic stability remains a fundamental pre-requisite for growth and economic development and this is only attainable through prudent fiscal and monetary policies that lower both inflation and interest rates, allow for greater savings, and investment and generate the employment that our people desperately need.

101. Mr Speaker, the new millenium must signal a change in the manner we do business in every respect. It must mark a new beginning that draws lessons from our past and focuses on the

future. Historical inequalities must be addressed and the widening gap between the poor and the rich must be narrowed, otherwise it threatens the very fabric of our society.

102. The poor are getting poorer as their incomes are eroded by very high inflation levels. Our response to this menace must be total and immediate.

103. All economists are agreed that the one source of inflation that can be easily controlled comes out of the financing of the budget deficit. The only sure way of combating this is for the Government to balance the budget, such that all public expenditures are met from regular revenue. Adhering to this time-honoured principle should quickly restore macro-economic stability.

104. In the region, a good number of countries have adopted the cash budget with positive results. Inflation in these countries has been arrested and

in many cases, to single digit levels. There is no reason why Zimbabwe cannot do better.

105. In tandem with this, the inflation – wage spiral must be checked. It is imperative that Government, Labour, Commerce and Industry come together and map out a Social Contract to break this spiral.

106. The good work of the National Economic Consultative Forum (NECF), the Smart Partnership that Government is engendering with the private sector and labour will no doubt succeed. Zimbabwe has great potential with all its diverse people, mineral wealth, tourist attractions and as a bread basket of this region.

107. We must and should succeed to turn the economy around and reduce the growing poverty amongst our people. Nobody will do this for us, but ourselves. We must galvanise the energies and the resourcefulness of all our people in tackling the problems that face our country. I have no doubt that we have the capacity and vision to



propel this great country to greater prosperity as  
we enter the new millenium.

I thank you!