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**Budget Statement, 1997**  
**Presented to The Parliament of Zimbabwe**  
**on Thursday, 24 July 1997**

**By**  
**The Minister of Finance**  
**The Hon. Herbert M. Murerwa, M.P.**

## **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 provisions for matters ancillary and incidental to this purpose.

## **B. INTRODUCTION**

2. Mr Speaker, Sir, it is my honour and privilege to present budget proposals for the 1997/98 financial year to this august House. The budget is a major instrument of macro-economic policy, especially in the short term, and therefore demands critical scrutiny by Honourable Members. Economic developments in the next 18 months will depend, to a large extent, on the budgetary impact on macro-economic variables such as inflation, growth and employment.
3. Mr Speaker, Sir, the budget for 1997/98 is being presented at a time when the economic prospects for the country look bright. We have had two successful agricultural seasons and performance in all sectors has been satisfactory. Following the abundant rains received during the 1996/97 season, we are currently enjoying our highest water supply since the early 1990s.
4. Furthermore, prospects for concluding negotiations with multilateral financial institutions on the second phase of reforms

are bright. This will trigger the resumption of the much needed balance of payments and budgetary support.

6. The budget has been crafted within the context of competing priorities such as education, health, social welfare and infrastructure development on the one hand, and the need for a lower and sustainable budget deficit on the other. For as long as the budget deficit remains high, the problem of inflation will persist unabated.
7. Mr Speaker, my statement today will cover economic performance in 1996 as well as prospects for 1997 and 1998. I will also highlight progress made in the preparation of the second phase of the economic reform programme, the outturn for the 1996/97 budget, and finally the 1997/98 budget proposals.

## **C. ECONOMIC REVIEW**

### **C.1 World Economy**

8. Mr Speaker, Sir, global economic activity accelerated significantly in 1996 compared to 1995. World output growth is estimated to have increased from 3.7 percent in 1995 to 4 percent in 1996. This strong growth derives from increased global commitment to structural reforms and macroeconomic stabilisation which has led to price stability being perhaps stronger than at any other time since the Second World War. The growth in 1996 was sustained by the increase in economic activity

experienced in Japan and continued strong growth in the United States and United Kingdom. Economic activity in other major industrial countries was, however, sluggish, due to, among other factors, record unemployment levels which constrained demand for goods and services and led to increases in social welfare expenditures.

9. In 1996, developing countries experienced yet another year of strong growth. The countries as a group grew by 6.5 percent compared to 6 percent in 1995. This increase in output was driven by stronger economic activity in Africa, Latin America and the Middle East as growth in the countries of Asia, though strong, declined marginally. Growth in Central and Eastern Europe continued to be mixed with those countries which commenced reforms earlier realising high growth.
10. Mr Speaker, economic growth in Africa was particularly impressive, rising from 2.9 percent in 1995 to about 5 percent in 1996. This growth in output, the highest in 20 years, signalled the turning point of several years of economic reforms. However, while a significant number of African countries experienced increased economic activity in 1996, prospects for sustained economic growth on the continent will be enhanced by a more stable political environment.
11. Mr Speaker, Sir, inflation in developed countries declined marginally from 2.6 percent in 1995 to 2.4 percent in 1996. The average rate of inflation in Africa declined from an estimated

32.1 percent in 1995 to about 24.8 percent in 1996. The average inflation for the continent was distorted by the very high rates obtaining in some countries. There is, therefore, need for African countries, Zimbabwe included, to implement policies that will lower the rates of inflation to single digit levels in order to achieve macro-economic stability.

## **C2. Domestic Economy**

12. Mr Speaker, the Zimbabwean economy experienced a strong recovery in 1996 and registered an estimated real GDP growth rate of 8.1 percent . This impressive growth in economic activity was largely underpinned by the increase in agricultural output of about 48.6 percent following the abundant rains received during the 1995/96 agricultural season.
13. The Manufacturing sector, which has strong linkages with agriculture, grew by 3.5 percent after experiencing a decline of 13.6 percent in 1995.
14. On the other hand, production in the mining sector, which had been impressive throughout the period of the economic reforms, was sluggish in 1996, and registered a decline of 0.2 percent . Weak international prices for Zimbabwe's major minerals accounted for this stagnation.
15. Mr Speaker, Sir, the economy is estimated to register a growth rate of about 4.5 percent in 1997. Owing to the negative impact

of excessive rains, the volume of agricultural production is projected to slow down and grow by about 4.3 percent . Manufacturing is expected to grow by 6 percent as a result of a combination of factors such as improved access to the South African market and the positive impact of the rationalised tariff structure on domestic economic activity.

16. Even though gold prices continue to be weak, the volume of mining production is expected to pick up as a result of firmer prices for other major minerals and the commencement of production from the BHP Hartley Platinum project during the second half of this year.
17. On the external front, the balance of payments position is expected to improve from a deficit of US\$21 million in 1996 to a surplus of US\$24 million in 1997. However, the current account deficit is forecast to deteriorate by 2.5 percent of GDP in 1997 from 2.1 percent of GDP in 1996 due to a net outflow in payment for services, signaling the need for an aggressive export drive.
18. Mr Speaker, inflation was on a downward trend in 1996 from a high of 28 percent at the beginning of the year to 16.4 percent in December resulting in an annual average of 21.7 percent . This was a marginal improvement on the 22.6 percent experienced in 1995.

19. Strong inflationary pressures still persist in the economy, largely due to factors such as frequent increases in prices, excessive money supply growth and demand for wage increases in excess of productivity. The rate of inflation, which had further declined from 16.4 percent in December, 1996 to 15.8 percent in January this year shot up to 22.4 percent in April before declining to 20.7 percent in May. However, the rate for June has since risen to 21.4 percent. If these inflationary pressures persist during the second half of the year, we are likely to experience an average rate of inflation in excess of 21 percent this year.
20. Mr Speaker, Sir, the current high inflation levels are inimical to sustainable growth and development. Such rates of inflation undermine our competitiveness with our trading partners. It is therefore necessary that Government, private sector and labour join forces to combat inflation in order to promote growth and employment. On its part, Government is making concerted effort to reduce the budget deficit. The private sector should increase productivity and refrain from unrealistic price increases and wage settlements.

### **C.3 Zimbabwe Programme for Socio-Economic Transformation (ZIMPREST)**

21. Mr Speaker, Sir, in my budget statement last year, I reviewed progress made under the first phase of the economic reform programme in creating a more conducive environment for

accelerated growth in investment and employment generation. I also pointed out how Government was determined to forge ahead in the implementation of the reforms despite the onset of a number of external shocks such as the recurrent droughts and the international recession.

22. At that time, I could only give a broad outline of the second phase of the reform programme as there was still a lot of work to be done.
23. Indeed, a lot has since happened and I am pleased to share with you the major highlights of the programme. ZIMPREST is a home grown policy document which was put together by Government with the assistance of local consultants and involved extensive consultations with the various stakeholders in the economy. Shortly, Government will launch ZIMPREST and I have no doubt that Honourable Members will lend their full support to this programme.
24. ZIMPREST will consolidate the achievements of the first phase of the economic reform programme and attend to the unfinished business of the first phase as well as introduce new areas emerging as a result of unfolding socio-economic developments. The major theme in ZIMPREST and indeed this budget is the achievement of macro-economic stability.



25. Mr Speaker, Sir, ZIMPREST embraces the following economic policies which result in the attainment of macro-economic stability:-

- Achieving economic growth and social development and greater equity of both opportunities and outcomes.
- Facilitating a greater role of the private sector in the economy.
- Providing a regulatory framework for commercialisation and privatisation of sectors previously monopolised by parastatals.
- Promoting outward-looking trade and investment policies.
- Promotion of both portfolio and foreign direct investment.
- Alleviating poverty by empowering individuals and communities, supported by appropriate public investment in health, education and infrastructure.
- Indigenisation that will focus on economic empowerment and facilitate enterprise development to promote growth.
- Promoting sustainable use of natural resources in a manner that does not compromise development options for future generations.

#### **D. PROSPECTS FOR 1998**

26. Prospects for 1998 largely depend on the outcome of the 1997/98 agricultural season. Assuming a good rainfall season, the agricultural sector, which is the mainstay of the economy, will post solid growth which will spill over to the other sectors.

27. The Manufacturing sector is expected to benefit from the anticipated decline in inflation and interest rates resulting in yet another year of strong growth. It is hoped that by 1998, international prices for gold will have picked up and this, combined with full production at the BHP mine for the full year, should result in strong growth for the Mining Sector. Overall, the economy is expected to experience a growth rate of about 5 percent in 1998.

28. Mr Speaker, Sir, the budget is the key instrument for implementing ZIMPREST. Among other measures, civil service rationalisation, commercialisation and privatisation of public enterprises and enhanced fiscal management, will significantly reduce the budget deficit. Furthermore, negotiations with the donor community for balance of payments and budget support will reduce dependence on domestic resources for financing. These policy measures are anticipated to exert a downward pressure on inflation and interest rates. Inflation is projected to decline to 16.5 percent by the end of June, 1998 and further to 12 percent at the end of the year. Interest rates are expected to decline in tandem.

#### **E. COMMERCIALISATION AND PRIVATISATION OF PUBLIC ENTERPRISES**

29. Noteworthy progress has been made in the reform of public enterprises, although at a slower pace than originally envisaged.

The graduation from commercialization to the privatisation stage will reduce the burden of public enterprises on the fiscus. As you may be aware, in June 1997, Dairiboard Zimbabwe Limited (DZL) became the first public enterprise to be privatised in Zimbabwe. Due to the overwhelming response from the general public, the sale of DZL shares was ten times over-subscribed. Next to be privatised are the Commercial Bank of Zimbabwe and the Cotton Company of Zimbabwe whose shares are scheduled to be on offer in August and September, 1997 respectively.

30. Participation by foreign investors may be required for strategic considerations such as the need for new or advanced technology, research, marketing and managerial skills.
31. The National Investment Trust (NIT) will warehouse shares to be purchased by indigenous people in the future. The enabling legislation on the NIT will be tabled in Parliament during the course of this session.
32. In order to sustain the momentum on privatisation, Government is working on the establishment of a Privatisation Agency whose main function is to facilitate implementation of privatisation proposals within the framework of ZIMPREST.

## **F. PUBLIC EXPENDITURE REVIEWS**

33. The Office of the President has recently completed an exercise on refocusing the mission of Government. This will facilitate further reduction in the size of the civil service by the Public Service Commission.
  
34. The stop payment system has continued to instill financial discipline in expenditure management. Work on computerisation of the accounting and management systems is underway. In order to minimise the current level of fraud, Government will be introducing a system of direct payment into the accounts of creditors. In an effort to retain skills in accounting and finance, Government is moving towards professionalisation of these fields.
  
35. Efforts are underway to improve and strengthen the public procurement function. Currently, tender procedures are part of the Treasury Instructions. It is intended that the procurement function be strengthened and be regulated through an Act of Parliament. The Procurement Bill will be presented to this House sometime during the course of this year.

## **G. BUDGET OUTTURN FOR 1996/97**

### **Revenue**

36. Total revenues collected during the fiscal year 1996/97 amounted to \$25,282 billion of which tax revenue amounted to \$23,209 billion and non tax revenue to \$2,073 billion. This is well above the initial target of \$23,350 billion. Individual tax, sales tax and customs duties performed far better than originally anticipated. This is mainly attributed to intensive revenue collection measures that were implemented during 1996/97, particularly the door to door exercise carried out in Harare. The exercise will continue throughout the country. Revenue was further boosted by proceeds from the sale of state assets amounting to \$540,753 million and \$922,762 million surplus on the gold and foreign account.

### **Expenditure**

37. During the past fiscal year, expenditures increased beyond the original budget provisions mainly as a result of wage settlements and bonus awards in the civil service. Total expenditure and net lending amounted to \$32,366 billion against a provision of \$34,079 billion including supplementary provisions. The original provision on salaries and wages was \$8,6 billion, but was later revised to \$11,1 billion. Interest on debt had initially been estimated at \$8,121 billion. However, the actual payments amounted to \$7,510 billion. This was mainly attributed to the temporary decline in interest rates following the transient fall in

inflation in the latter part of last year and earlier this year. In addition, the Reserve Bank assumed responsibility over the interest portion which accrues on Treasury bills utilised purely for mopping up excess liquidity and not for financing the budget.

38. The total wage and interest bill for 1996/97 amounted to \$18,610 billion, constituting 71 percent of total revenue or 57.5 percent of total expenditure. Hence, only 29 percent of total Government revenue was available for discretionary expenditures, including the Public Sector Investment Programme (PSIP).
39. Capital expenditure and net lending totalled \$4,122 billion, a decrease of 3.5 percent from the initial target of \$4,27 billion. However, as a share of total expenditure, it constituted only 12.7 percent. A reduction of recurrent expenditures is necessary for growth in capital expenditures.

### **The Budget Deficit**

40. In 1996/97 the budget deficit excluding grants totalled \$5,621 billion, or 6.5 percent of GDP. The deficit excluding grants and privatisation proceeds amounted to \$6,162 billion, about 7.1 percent of GDP. When grants and privatisation proceeds are incorporated, the deficit declines to 5.9 percent of GDP. The 1996/97 budget had envisaged a budget deficit of 8.5 percent of GDP. The budget outturn is a good achievement which should be sustained under ZIMPREST.

## **Financing the budget**

41. Total revenue generated in 1996/97, including privatisation proceeds, financed 82.6 percent of total expenditure, compared to 74.8 percent in 1995/96. This left a shortfall of 17.4 percent which was financed through grants amounting to \$544,424 million and \$5,168 billion net borrowings from the domestic market. There was a net outflow of \$90,993 million on foreign financing, with \$2,154 billion borrowings and \$2,245 billion repayments. In the initial budget, I had estimated net foreign financing of \$349 million. This could not be realised due to the suspension of multilateral and donor financial support for the reform programme.

## **H. PROPOSALS FOR 1997/98**

42. Mr Speaker, in my budget statement of July 1996, I announced the intention to merge the fiscal and financial year with the calendar year. The fiscal year 1997/98 runs for a period of 18 months which spans the period July 1997 to December 1998. This will make projections on social and economic statistics more meaningful since most of the data are published on a calendar year basis.
43. Mr Speaker, Sir, I would like to thank Honourable Members for the interest they have shown by contributing towards the budget preparation. At the pre-budget seminar in May this year, I benefited immensely from your contributions. In putting this budget together, I have tried as much as possible to accommodate

your views within the confines of existing budgetary and other limitations.

### **Revenue**

44. I have estimated total revenue to be collected during this fiscal year, at \$48.8 billion, about 28.8 percent of GDP. Of the total amount, \$44.6 billion will be tax revenue while non tax revenue is anticipated to be \$4.2 billion. Revenue collection will be enhanced through the establishment of the National Revenue Authority (NRA), which will close loopholes in the tax system as well as strengthen tax administration. Government has already approved the establishment of the authority, which I will be tabling in the House during this session.
45. Mr Speaker Sir, I intend to introduce the Value Added Tax (VAT) in 1998. At present, sales tax is collected only when a product has been sold. This means that revenue remains uncollected for a long time until a sale is made. The VAT will go a long way in boosting tax revenues as collections will be made earlier in the production and distribution process.

### **Expenditure**

46. Mr Speaker, total expenditure and net lending for 1997/98 is estimated at \$63,857 billion, which is 37.7 percent of GDP. This is a marginal increase of 0.3 percent age points compared to the



1996/97 figure of 37.4 percent of GDP. The salaries and wages bill is estimated at \$25 billion while interest on debt is \$14,05 billion. As a share of total expenditure salaries and wages will constitute 39.1 percent while interest on debt accounts for 22 percent. The higher wage bill is a result of two annual increments and the award of bonuses to civil servants for the years 1997 and 1998. In addition, the figure caters for the cost of living adjustment and the payment of Phase III of the Job Evaluation Exercise, review of allowances for civil servants, as well as unbunching of salaries for grades 9 to 18.

47. Capital expenditure and net lending will be \$7,75 billion, which is 12.1 percent of total expenditure and 4.6 percent of GDP, compared to levels of 12.7 percent and 4.8 percent respectively realised in 1996/97. However, this will be complemented through private sector participation in infrastructure provision, especially considering policy measures such as Build-Own-Operate-Transfer (BOOT), Build-Own-Operate (BOO), etc, which the Government has started to implement on projects such as the New Limpopo Bridge and the proposed Heany Junction - Beitbridge Railway line.

#### **I. CAPITAL AND RECURRENT EXPENDITURE**

48. In the 1997/98 budget, I have for the first time put PSIP allocation under the respective Ministry Votes. In the past this used to be allocated under the former Ministry of Public Construction and National Housing.

## **Wage Bill**

49. The wage bill amounts to \$25 billion which is 39 percent of total expenditure. This represents 51.2 percent of total revenue and 15 percent of GDP. I am concerned that the wage bill remains too high. Measures that I have already alluded to such as civil service rationalisation, and focus on core business, must be implemented without further delay in order to reduce the salaries and the wages bill.

## **Education, Sport and Culture**

50. Government places high priority on the development of human resources. I have therefore, once again, allowed the recurrent budget to be dominated by Ministries of Education, Sport and Culture and Higher Education and Technology. The two, put together, account for 24 percent of total recurrent expenditure. I have allocated \$11,171 billion to the Ministry of Education, Sport and Culture. This is in view of the need to maintain the high standard of education offered in our schools. The biggest increase in the allocation is attributable to the increase on salaries and allowances, as a result of implementation of Phase III of the Job Evaluation exercise. I have provided \$2,819 billion to the Ministry of Higher Education and Technology. I am allowing the two Ministries to retain the fees which they collect in order to empower the local communities.

## **Health Delivery**

51. Mr. Speaker, Sir, a healthy nation prospers and becomes the envy of other nations. The AIDS pandemic, together with other diseases such as TB, hepatitis B and malaria are a threat to the prosperity of our nation. Government will therefore continue to give high priority to provision of health services. I have therefore provided \$3,818 billion for health delivery and have also allowed the Health Ministry to retain fees collected.

## **Social Welfare**

52. Mr Speaker, Sir, whilst we had a very good agricultural season, some of the people will still need social welfare. I have therefore provided \$4,513 billion to the Ministry of Public Service, Labour and Social Welfare.

## **Economic Ministries**

53. The economic Ministries play an important role in the provision of infrastructure which is necessary for spearheading economic growth. These include Finance; Industry and Commerce; Lands and Agriculture; Rural Resources and Water Development; Transport and Energy; National Affairs, Employment Creation and Cooperatives; Information, Posts and Telecommunications; Mines, Environment and Tourism and Local Government and National Housing.

54. I have allocated a total of \$5,273 billion to the Vote of Credit relating to donor funding. The Ministry of Local Government and National Housing has been allocated \$980 million, Lands and Agriculture \$1,311 billion, the Ministry of Transport and Energy \$871 million and Ministries of Rural Resources and Water Development and Industry and Commerce have been allocated \$626 million and \$613 million respectively. I have allocated \$14 million to the Ministry of Finance for the Zimbabwe Investment Centre (ZIC) and \$273 million to the Ministry of Mines, Environment and Tourism.

#### **Rural Development Fund**

55. Mr Speaker, Sir, Government is concerned at the lack of development in the rural areas and in this regard intends to establish the Rural Development Fund to finance the construction of roads, bridges, clinics, schools, water points and other infrastructure.
56. It is proposed that for this year, this money be shared equally among all rural provinces, while a more equitable system which takes into account poverty, population density and other criteria is worked out. This money will not be used to support any bureaucracy, but for development only. I intend to pass on the development levy to this fund.

57. To this effect, legislation will be brought to this House during the course of this Session, and I appeal to Hon. Members to fully support this initiative.

### **International Relations**

58. The Ministry of Foreign Affairs plays an important role in promoting investment and trade and bring Zimbabwe into the limelight abroad. I therefore propose to allocate the Ministry \$864,5 million.

### **Defence And Security Forces**

59. Mr Speaker, Sir, the whole of the Southern Africa region has been liberated and is now enjoying relative peace. The defence forces have been deployed on peace-keeping missions under the auspices of the United Nations. While we have achieved considerable reduction in manpower, it is necessary to have an effective and efficient Defence Force that is appropriately equipped. I therefore propose to allocate \$5,420 billion to Ministry of Defence. Of this amount \$3,988 billion is for salaries and allowances.
60. Mr Speaker, Sir, I propose to provide the Ministry of Home Affairs with \$2,931 billion representing an increase of 24 percent over last year's allocation. The allocation will cater for, among others, departments such as the ZRP and Registrar General's office. For the ZRP to maintain law and order, it has to be adequately funded. The Registrar General's office is computerising

in order to update the voters roll and eliminate queues at national registration centres.

### **Judiciary**

61. The judiciary contributes significantly to good governance and transparency. In acknowledgment of its role, I propose an allocation of \$818 million to the Ministry of Justice, Legal and Parliamentary Affairs.

### **J. PUBLIC SECTOR INVESTMENT PROGRAMME**

61. Mr Speaker, I have allocated \$7,75 billion for the Public Sector Investment Programme (PSIP). Over the past two years resources for the PSIP have fallen as a share of GDP from 9.2 percent in 1994/95 to 6.5 percent in 1996/97 and 4.6 percent in 1997/98.
62. This decline in the PSIP budget has also made it abundantly clear that the Government alone cannot meet the social and infrastructural development requirements of the economy. Efforts are being made to encourage private sector participation through Build Own and Operate (BOO), and Build Own Operate and Transfer (BOOT) to which there is already a resounding response. I am most grateful to donor agencies who have been sufficiently flexible to accommodate this new funding mechanism.

63. Mr Speaker, in the 1997/98 PSIP, priority has been given to on-going projects to ensure their successful completion. New works have been accommodated only where commitments have already been made. In this regard, 78 percent of the total capital budget will go towards financing on-going projects and the remainder is for new priority projects. The proposed total programme, excluding parastatals' own resources amounts to \$7,75 billion of which \$4,547 billion will be from external sources in the form of grants and loans. Compared to the 1996/97 outturn, this represents an increase of 19 percent in nominal terms. Parastatals' own resources amount to \$4,024 billion which is over and above the central government PSIP budget of \$7,75 billion.
64. The Ministry of Rural Resources and Water Development has been allocated \$1,263 billion. Of this amount, \$603 million is mainly for the provision of resettlement infrastructure, rural roads and water supplies by the District Development Fund (DDF). Furthermore, \$224 million is earmarked for the Integrated Rural Water Supply and Sanitation programme, and \$83 million has been allocated for various capacity building projects for the Rural District Councils (RDCs). Some \$343, million is for construction of Tokwe-Mukosi dam and several medium sized dams. The other major dams such as Biri and Kunzvi are being considered for co-funding with the private sector.
65. The Ministry of Transport and Energy has been allocated \$1,293 billion. This accounts for 17 percent of total PSIP. An allocation of \$605 million has been provided for the New Harare

International Airport. A total of \$566 million has allocated for the construction of roads, bridges and traffic control facilities.

66. Mr Speaker, I have allocated \$371 million to the Ministry of Lands and Agriculture, which is an increase of 132 percent from last year's allocation. Included in this provision is \$80 million for the purchase of land for resettlement. On irrigation development, emphasis will be on the promotion of the smallholder subsector with a view to further enhance its contribution to the economy. An amount of \$44 million has been allocated for improvement and upgrading agricultural colleges to enable them to offer National Diplomas and Higher National Diplomas. An additional \$69 million has been allocated for agricultural services offered by various departments of this Ministry.
67. The Ministry of Higher Education and Technology has been allocated \$541 million. I have allocated \$370 million for the construction and equipment requirements of the National University of Science and Technology (NUST). An amount of \$120 million has been allocated for the construction and procurement of equipment for the Health Science Centre for the University of Zimbabwe, and \$20 million will be for commencement of works on Phase I of Gwanda Teacher's College. A further \$10 million is earmarked for the College of Distance Education which will be the nucleus for the Open University.
68. The Ministry of Health and Child Welfare has been allocated



\$474 million for the upgrading and construction of health facilities at national, provincial and district level which is an increase of 13 percent over last year's provision. In line with Government's plan to have a hospital in every district, hospitals will be constructed in Hwange and Gokwe North in 1997/98. The total amount includes \$240 million for completion of the Family Health II programme.

69. The Ministry of Local Government and National Housing has been allocated \$1,407 billion. Of this amount, \$634 million has been allocated for the Urban II Development programme which benefits 21 local authorities. This allocation will complete the second phase of this programme which has provided the much needed housing and community facilities for our growing urban centres. The balance of this provision is partly for the construction of the Harare Composite Office Complex which will accommodate several Ministries and also for supervision fees for all construction works.
70. A substantial amount under the Ministry of Industry and Commerce's allocation of \$480 million is for the payment of ZISCO's called-up loans amounting to \$400 million. Government has put in place a turn-around programme intended to reverse the company's drain on the fiscus. In this regard, the company has borrowed \$605 million from external sources for the rehabilitation of Blast Furnace Number 4 which when completed will restore 70 percent of ZISCO's production capacity. Funds in the amount of \$35 million have also been provided for SEDCO and IDC to promote development of small to medium size enterprises.

71. Mr Speaker, as you will recall, last year I informed this House that the National Investment Trust (NIT) will be established. This, however, has not been possible since the Trust Deed which provides for the appointment of trustees and the board has yet to be tabled in Parliament. In light of Government's commitment to the indigenisation of the economy, I have allocated \$200 million for the NIT which will be established during this session. The NIT will warehouse shares resulting from sale of Government assets. The shares will be held in trust for purchase by indigenous people.
72. Government recognises the need to enhance research and development by both the public and private sectors, in view of the rapid technological changes taking place the world over. In this regard \$181 million has been earmarked for the on-going construction of the Scientific Industrial Research and Development Centre in the Office of the President and Cabinet.
73. Mr Speaker, you may be aware of the accommodation problems facing our Defence Forces. In order to mitigate the problem, I have therefore allocated \$262 million to the Ministry of Defence for this purpose.
74. The Ministry of Home Affairs has been allocated \$482 million of which \$280 million is for the procurement of vehicles and boats for the Zimbabwe Republic Police, and \$104 million is for construction of the Regional Interpol Headquarters and residential accommodation. The computerization of the Central Registry is

well underway and \$141 million has been provided for this programme.

75. The on-going modernization and digitalization programme by the Posts and Telecommunications Corporation has been included under the Ministry of Information, Posts and Telecommunication's Vote with an allocation of \$100 million.
76. Mr Speaker, in view of the need to achieve sustainable utilisation and management of our natural resources, I have allocated \$161 million to the Ministry of Mines, Environment and Tourism for the Forestry Commission and Department of National Parks and Wildlife Management for natural resources conservation works. The allocation to this Ministry includes \$21.5 million for completion of Phase I and commencement of Phase II of the School of Mines and the balance is for mining exploration and research activities.
77. Under the Ministry of Education, Sport and Culture, I have allocated some \$45 million for schools and for development of sport.

## **K. FINANCING THE BUDGET**

### **Budget Deficit**

78. Mr Speaker Sir, the 1997/98 budget deficit which stands at \$15 billion, excluding grants and privatisation proceeds, represents 8,9 percent of GDP, which is higher than the 7.1 percent of GDP achieved in 1996/97. When grants are included, the figure declines to \$13,25 billion which represents 7,8 percent of GDP.

### **Budget Financing**

I anticipate total revenue to finance 76.5 percent of total expenditure. This leaves a shortfall of \$15 billion which will be catered for through \$1.819 billion worth of grants, \$1.5 billion privatisation proceeds, \$318 million net foreign financing and \$11.387 billion net domestic borrowings.

## L. TAXATION PROPOSALS

80. Mr Speaker, the reduction of the central Government deficit from 10 percent of GDP to 5 percent by fiscal year 1994/95 was one of the major objectives of ESAP. However, this objective could not be achieved due to a number of factors such as decline in revenue performance, among others.
81. Revenue performance declined sharply during ESAP from 33.9 percent of GDP in 1990/91 to 28.5 percent in 1995/96. This reduction has contributed significantly to the growing fiscal imbalance. The decline was due partially to policy changes introduced during the course of the ESAP, such as reduction in the rates of personal income tax, exempt from duty and tax on capital goods and raw materials. The main reason however, lay in the fact that tax administration could not keep pace with the expansion and increasing sophistication of industry and commerce.
82. Due to deficiency in the enforcement capabilities of the tax authority, compliance declined. Constraints that have faced tax authorities include limited technology and professional skills, human and financial resources.
83. Mr Speaker, the theme of my taxation proposals in the current budget is to enhance tax enforcement thereby raising compliance; through closing up loopholes and also introducing other measures that will assist tax administration.

84. Mr Speaker, I propose to change the tax year to align it with the fiscal year. I therefore propose a nine month tax year to cover the period 1<sup>st</sup> April 1997 to 31<sup>st</sup> December 1997. Thereafter, the tax year will run from 1<sup>st</sup> January to 31<sup>st</sup> December.
85. Honourable Members are aware that a number of measures that led to the overall reduction of tax on income were implemented during phase one of the structural adjustment programme. However, we take cognisance of the fact that the current tax structure continues to impose a heavy burden on tax payers. This fact has been further compounded by the effects of inflation, which have resulted in the problem of bracket creep for taxpayers. I therefore propose to alter income bands used in the calculation of income tax to begin at \$12 000 and end at \$80 000, above which income tax is chargeable at the rate of 40 percent with effect from January 1999. This measure will have a significant impact on incomes of taxpayers, particularly favouring the poor with those earning \$1 000 per month completely exempt from income tax.
86. Mr Speaker, Sir, in my budget statement last year, I announced that the motor vehicle benefit would be taxed at cost to the employer. A number of organisations have expressed concern with this new method of taxing the motor vehicle benefit. However, the new method of taxation is in line with the principle of horizontal equity which requires that individuals with the same income pay the same level of tax. For tax purposes, income includes benefits granted by the employer.

87. Having considered all the representations made, and in particular, the significant increase in tax liability for those who make use of company vehicles, I propose to introduce the taxation of the motor vehicle benefit at cost to the employer on a phased basis. Thus, I propose to tax 50 percent of the benefit with effect from 1<sup>st</sup> April, 1997; 75 percent with effect from 1<sup>st</sup> January 1998 and, finally, 100 percent with effect from 1<sup>st</sup> January 1999. These changes allow for both employers and employees to adjust to the new method of taxing the motor vehicle benefit, as well as provide relief to employees who would otherwise have had to bear a significantly high tax burden.
88. I further propose to reduce the rate of corporate tax from 37.5 percent to 35 percent with effect from January 1, 1999. This measure should provide some relief to companies and contribute towards output expansion and employment generation.
89. Mr Speaker, I have endeavoured over the years to reform the structure of tax policy, in order to attain a degree of simplicity as regards administration, through removal of a number of credits among other things. However, on humanitarian grounds, credits for the blind and disabled have not been scrapped, but have remained static for a long period of time. I propose to increase the same credit from \$500 to \$1 500 with effect from 1st January, 1999.
90. Companies are currently allowed deductions of expenditure amounting to \$50 000 where the cost of putting up a staff house does

not exceed \$100 000. Expenditure deduction of up to \$500 000 is also allowable on schools and clinics. In order to encourage provision of such services by companies, I propose to increase these deductions to \$70 000 where the cost of constructing a staff house does not exceed \$125 000, and \$750 000 for clinics and schools with effect from 1st January, 1999.

91. Mr Speaker, the prescribed period within which cases are open for assessment is three years under the current legislation. The recent door to door investigations carried out by tax officials have revealed cases in which the fiscus has been deprived of revenue, since it was not possible to open up cases that had already been closed, at the lapse of the three year period, for further investigations. I therefore propose to extend the prescription period to six years in all cases other than those involving fraud or tax evasion where no time limit will apply.

92. Another area where loopholes have led to loss of revenue to the fiscus is where companies that fall under the same control transfer assets from one company to another, in a bid to avoid their tax obligation. I propose amendment to the Income Tax Act in order to allow recovery of tax in the event that assets are transferred to another legal person under the same control. This measure will no doubt curb the increase of tax avoidance through company asset stripping.

93. Mr Speaker, after the opening up of the economy through trade liberalisation, informal sector activities increased significantly. The



major problem with an existence of a fairly large proportion of the informal sector is that it is difficult for the tax administration to bring potential taxpayers into the tax net. The key to implementing any concept of fair taxation however lies in the ability of the tax administration to reach all those who should pay and to tax them in accordance with their ability to pay. I therefore propose to impose a 10 percent withholding tax on rentals made to any authority or agency that lease space to traders. Adjustment as regards losses that may have been incurred would be made upon submission of annual tax returns.

94. Mr Speaker, tax administration has through its usual audits observed abuse of sales tax numbers by registered operators. The intention of registration for sales tax numbers was to ensure that inputs are acquired at competitive prices through removal of the cascading effect and also that traders would collect sales tax once their stocks are consumed. However, the interpretation of normal cause of business seems to have been too wide, thereby leading to abuse. I propose to restrict the meaning of normal course of business through amendments to the Sales Tax Act.
95. Honourable members are aware that bad debts are common in any trading business. However, the Sales Tax Act does not currently provide for bad debts. I propose an amendment to the same Act in order to provide for a deduction on sales, where proof for bad debts is shown. Simply put, a trader should be able to claim sales tax if a sale in fact was never made.

96. Mr Speaker, the exercise of restructuring parastatals so as to improve their viability is now at an advanced stage. However, some loss making operations of parastatals pertain to State activities. Since parastatals are now taxed like any other company, it will be fair to delink state functions from the rest of other activities for tax purposes, hence I propose an amendment to the Income Tax Act to cater for this measure.
97. Mr Speaker, pension funds are currently exempt from tax. I propose with effect from January 1, 1998 to repeal the exemption and to put in place provisions to tax the profits of pension funds at 15 percent . This measure will contribute towards the broadening of the tax base. I further propose to amend the definition of financial institution to include the Reserve Bank of Zimbabwe for purposes of withholding tax on interest. The effect of this amendment is that interest earned on Treasury Bills will now be subject to withholding tax at 15 percent. This measure will be effective from January 1, 1998.
98. Mr Speaker, Sir, excise duty as a percent age of GDP deteriorated over the years from 2,5 percent in 1990/91 to 1,3 percent in 1995/96. The decline in this revenue source is attributed mainly to the effects of the two droughts 1991/92 and the fact that most excise duties were specific, hence could not keep pace with price changes. This anomaly has since been regularised and most excise duties are now ad-valorem.

99. Mr Speaker, I am not proposing any excise duty increase in this year's budget as such increases would have an adverse impact on consumption volumes, thereby negatively affecting revenue inflows. Furthermore, the increases would unnecessarily add to inflationary pressures which we are striving to contain.

#### **M. CONCLUSION**

100. Mr Speaker, Sir, in concluding my statement today, I want to revisit the major theme of ZIMPREST - the restoration of macro-economic stability. An overheated economy, with its ugly head, inflation, creates no meaningful wealth, no meaningful employment opportunities and perpetuates poverty for the ordinary man in the street.
101. Inflation continues to erode purchasing power, with salaries and wages continuing to go down in real terms. It undermines investment and inhibits growth and employment.
102. A monthly wage is intended to look after the needs of the ordinary worker. The fact is that wages can no longer adequately feed, clothe or give shelter to an average family. This is the reality on the ground which must be addressed quickly. Savings which are so focal to investment, have equally been eroded by continued high inflation. Life savings are now a fraction of what they could have been had inflation been contained in single digit figures. Not only does this adversely affect the quality of life, but also undermines confidence in the economy.

103. Government on its part should now aim to balance its current expenditures with current revenues, allowing borrowings only for capital expenditure. Current initiatives to reduce the size of the civil service and disposal of public assets will result in fiscal consolidation in the next two or three years. But Government alone cannot win the battle against inflation; its control and reduction requires combined effort by all stakeholders Government, labour and the private sector.

104. Zimbabwe needs to be remain competitive in the region and internationally, as we are irreversibly part of the global trading arrangement. In the next phase of our economic reforms, we must take up the challenge to create an economic environment in which our citizens can enjoy the fruits of economic growth resulting in increased employment opportunities, gains in real income, consumption and improved quality of life for our people.

