



REPUBLIC OF ZIMBABWE

BUDGET STATEMENT, 1988

**Presented to the House of Assembly
on Thursday, July 28, 1988**

by

**The Senior Minister of Finance, Economic Planning
and Development,**

The Hon. Dr. B. T. G. Chidzero, MP.

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Contents

	<u>Paragraphs</u>
A. Motion	001
B. Introduction	002 -
C. Economic Performance and Problems	005 -
D. Policy Action	014 -
E. Budget Outturn 1987/88	023 -
F. The 1988/B9 Budget	034 -
F.1 Recurrent Expenditure Proposals	035 -
F.2 The Public Sector Investment Programme	047 -
F.3 Total Expenditure and the Budget Deficit	062 -
F.4 Financing the Budget Deficit	066 -
F.5 Revenue and other Financing Measures	069 -
G. Concluding Remarks	090 -

BUDGET STATEMENT 1988

A. MOTION

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

B. INTRODUCTION

002. Last year I emphasised the unsatisfactory pattern of economic growth achieved so far, and the need to adopt wide-ranging policy measures which would get the economy onto a sustainable and stable growth path. This continues to be the objective, and has guided the current year Budgeting process. There has been a real attempt, in particular, to align Budget limits with the targets of the Plan, and to examine the size and structure of expenditures in relation to the pattern envisaged in the Plan. I must however, hasten to repeat what I said last year, that given present levels and the structure of expenditures brought about by your specific socio-economic, historical and geopolitical circumstances, the structure of the Budget will for some time continue to impose a constraint on the achievement of Plan targets, even though we sustain our efforts to reduce it.

003. This year's Budget has been prepared against a background of unsatisfactory economic performance during the last couple of years, consequent upon a diversity of difficult internal and external economic circumstances. Despite the expected improvement in performance in terms of growth prospects in the current fiscal year, the underlying problems facing the economy still remain.

004. Therefore before I present the 1988/89 Budget, I must spend some time highlighting the major problems facing the economy, and the implications for policy.

C. ECONOMIC PERFORMANCE AND PROBLEMS

005. Available figures indicate that, following the high growth rate of 8 per cent achieved in 1985, there was deterioration in 1986 and 1987, with real growth for the two years averaging less than 2 per cent, compared to the Plan's growth target of an annual average of 5 per cent. Given this performance, and the present constraints facing the economy, only through a combination of extra-ordinary measures and sustained efforts as well as favourable exogenous factors can growth for the remaining three years of the Plan period be such as to make up for the poor performance so far, and bring the growth of the economy nearer to the Plan target figure envisaged by 1990.

Present policy measures are therefore directed at solving

the structural problems facing the economy, so that a sustainable level of growth can be reached in the medium term.

006. Preliminary projections for performance in 1988 indicate that the economy is more than likely to grow at about 5 per cent in real terms. This can be attributed primarily to the good agricultural season, and partly to expected favourable prices and demand for mineral products on the World market. But it is also due to the effects of some of the policy measures which we adopted during 1987, as I indicated at the time of the Budget. It is the intention of Government to maintain growth at least at this level during the rest of the Plan period. With appropriate policy measures, it is envisaged that higher rates of growth can be achieved thereafter.

007. I have already indicated that despite the good growth prospects for the short-term, the economy continues to face underlying structural problems which will affect growth prospects for the medium and long term. Thus, economic growth continues to be subject to fluctuations related to agricultural seasons and trends in the world economy. Expansion into areas which are appropriate for fostering stable growth and for generating employment has been far from adequate.

008. Major problems facing the economy include continued

external balance situation which is largely linked to movements in international commodity prices and our terms of trade; and to levels of investment, which is necessary to promote growth and employment; as well as a high Budget deficit, related to the level of recurrent expenditures, including debt service and in particular subsidies.

009. During the past few years Government has taken a number of measures designed to stimulate exports in order to earn the foreign currency required for growth. These measures have included, among others, adoption of a realistic exchange rate policy, the introduction of an Export Incentive Scheme, the augmentation of the Export Revolving Fund, and recently the activation of export promotion loans to cover agricultural and mineral exports in addition to manufactures. As a result of these policies, progress has been achieved in some areas, by way of increases in export volumes. On the whole, however, export levels continue to be unsatisfactory. The levels of exports achieved in 1987, and the projected levels for 1988 and 1989, fall far short of meeting our import requirements and servicing the national debt, in face of reduced capital inflows.

010. Despite the increased utilisation of import programmes outside traditional allocations, import levels are far below the economy's requirements, particularly in the productive sector. As an illustration, estimates

import requirements, it will be necessary for import levels to be about 25 per cent of GDP. This is compared to a present level of only 18 per cent.

011. The single most important problem facing the economy is unemployment consequent upon stagnant or low levels of investment and high Budget deficits. Investment is only likely to pick up significantly if more foreign currency becomes available to meet the backlog of plant and machinery requirements. The projected levels of import allocations are a matter of great concern and are likely to constrain investment in the short term. Despite the good rain season in 1988, supply constraints still remain and investment growth will be affected accordingly.
012. As long as investment does not pick-up and there are no significant adjustments in income and labour policies, the issue of employment will continue to surface as a symptom of the problems underlying the economy. Based on the 1982 National Population Census, the estimated total labour force in 1987 was about 3,04 m compared to total formal employment of only about 1,1 million. The Census estimated the number of communal farmers to be about 1,038 million in 1982. If this is used as a proxy for the number in 1987, and communal farmers are added to those employed, we will remain with an unemployment figure in 1987 which is upwards of 900 thousand.

Even this is to be regarded as an underestimate, given that official figures do not necessarily capture all those in need of employment. With the number of school leavers rising each year from an estimated 100 thousand in 1986, to more than 300 thousand in 1990, it is clear that unemployment is rising at a level well above what can be supported by present trends in investment and there is need for action on all fronts to promote employment generating investment.

As

013. I shall discuss the policy thrust of the Budget later would want here to draw attention to the fact that Government is aware of the link between the level and structure of the Budget and investment. It continues to be an issue of concern that whilst revenue growth has been slowing down, expenditures have been growing substantially, with Government being a dissaver in terms of recurrent expenditures exceeding revenue.

D. POLICY ACTION

014. The issues which I have just outlined are the focus of policy intended to get the economy onto a stable growth path. I have already referred to some of the policy measures which Government has adopted. There are a number of areas now being examined by Government in order to address the problems facing the economy.

a guide to potential areas of investment. The first phase of the Register, indicating a limited number of projects which could be of interest to potential investors, is now ready and is being discussed within Government. It will be made public as soon as a decision has been taken.

016. I have also in the past indicated Government's cognisance of the need to formulate comprehensive investment policies and guidelines which will replace the existing ones. In order for these to be effective, they should operate side by side with the Investment Register. The whole subject of investment is therefore under active consideration in Government at present, with the objective of providing an appropriate investment incentive framework for both local and foreign investors in projects and programmes consistent with national development objectives. However, immediate action is being taken in some areas to provide incentives intended at promoting investment and attacking the major economic problems, particularly unemployment.

017. Government's concern with the extent of the efficiency of the existing import allocations system and its impact on industry has prompted consideration of a possible trade liberalisation strategy, taking into account the need to revitalise and expand industry, reduce costs to consumers and create employment. However, it is recognised that, given the existing inherited system,

economy, and ^{the} already existing economic imbalances, a trade liberalisation programme would have to be introduced with caution. Consequently, a team has been set up to study the whole question in detail.

018. The team is expected to complete its work by the end of the year and has been tasked to look into the following:-

- (a). the historical background to the present trade regime and its impact on the economy;
- (b). the present system of foreign exchange allocations, its strengths and weaknesses, its impact on the economy and the possible need for liberalisation;
- (c). the experiences of other countries in relation to liberalisation;
- (d). the various liberalisation options which could be adopted in Zimbabwe, including the timing, sequencing and financing needs which are entailed, and the various complementary economic policies implied;
- (e). the institutional requirements necessitated by the adoption of liberalisation, including monitoring and evaluation.

019. The team is expected to make specific proposals with reference to an optimal form of liberalisation which is implementable in Zimbabwe. It is also expected that the team's report will show clearly the effects of libera-

regard to specific areas such as competition, growth and expansion of industry, technology and employment levels.

020. In addition to the trade liberalisation study, there is work going on internally within Government, designed to come out with an overall economic adjustment programme. This exercise will define the specific parameters for solving present economic problems, particularly in relation to imbalances on the Budget and the balance of payments. This work is, of course, closely linked to the work on trade liberalisation.
021. In the area of prices and incomes policy, following the lifting of the freeze earlier this year, Government is examining ways in which the existing system can be improved upon. It is Government's intention that pricing and incomes issues should be streamlined through a Prices and Incomes Board, linked with the National Planning Agency. In this context, Government is looking towards moving, once the labour movement is in a position of strength to a system of collective bargaining with regard to wages so that the determination of wage levels can be in line with conditions existing in different industries.
022. The success of a package of new economic policy measures will be heavily dependent on progress achieved in solving the existing imbalances on the Budget. Present expendi-

can be sustainable, given the structure of expenditures. This situation is in part due to our historical and geopolitical circumstances and defence requirements and the need to redress institutional and distributional imbalances which existed at independence in 1980.

Government has since made big strides in redressing these imbalances, particularly with regard to education, health and rural development. As services have to be financed from revenues, it is recognized that the thrust has to shift to building up the productive base in order to generate more revenues, if services are to be sustained.

E. BUDGET OVERTURN 1987/88

023. Last year I announced a total expenditure and net lending programme of \$4615 m. Of this, recurrent expenditure amounted to \$3867 m, whilst capital and net lending constituted the rest. Given revenues, including international aid grants, of \$3628 m, I estimated the Budget deficit for 1987/88 to be \$988 m. The supplementary and additional estimates of expenditure approved later in the year increased the estimate for total expenditure and net lending to \$4822 m. With no new measures to raise additional revenue, the estimate for the Budget deficit went up substantially to \$1194 m. In the event, however, as I will show shortly, the deficit was lower than estimated.

024. The outturn for 1987/88, I am happy to say, reflects the maintenance of strict controls on expenditure levels during the year and a better than expected revenue performance resulting in a Budget deficit lower than the original estimate.
025. Revenues, excluding international aid grants, amounted to \$3661 m as compared to an original estimate of \$3470 m. The increase over the outturn figure for 1986/87 is about 24 per cent. It should be noted, however, that such an increase cannot be maintained. During 1987/88, revenues benefitted from an extraordinary item of about \$134 m, representing a surplus from the sale of securities by the Reserve Bank. This item is not repeated in the current year. In addition, the changeover in the timing of payments of taxes from companies, which I announced last year, benefitted the 1987/88 revenue levels compared to 1986/87. Since the adjustment has now been made, revenues in 1988/89, compared to 1987/88, will not benefit from this item. If the two items I have referred to are excluded, the revenue increase in 1987/88 is reduced to about 17 per cent.
026. Actual total expenditure and net lending amounted to \$4681 m, compared to the estimate of \$4822 m. Of this, recurrent expenditure amounted to \$3887 m, which is about \$77 m below the estimate of \$3964 m. The recurrent expenditure figure is still high and exceeds revenue by some \$100 m, contrary to the objective to create a

surplus of revenue over recurrent expenditure. However, considering that the increase over 1986/87 is about 9 per cent, compared to the previous year's increase of about 22 per cent, there were indications in 1987/88 that controls had been successful in slowing down increases in this item of the Budget.

027. Performance of capital expenditure, in terms of implementation capacity, was more encouraging in 1987/88 than 1986/87. The outturn of \$408 m, which excludes net lending and investments, represents about 83 per cent of estimate, the highest implementation rate reached so far. With net lending and investments at \$386 m, total capital and net lending excluding the own resources programmes of parastatals, was \$794 m. If the ZISCO allocation of \$100 m is excluded, the figure represents an increase of 38 per cent over 1986/87. The improvement in implementation capacity implies that capital project planning can now be made more meaningful and efforts can be directed towards the restructuring of the programme, with a view to allocating more resources into revenue and employment generating areas.
028. Given total expenditure and net lending of \$4681 m, and revenue, including international aid grants amounting to \$3 785 m, the outturn for the Budget deficit was \$896 m. It will be noted that this figure is below the original Budget estimate of \$988 m, and below the 1986/87 deficit of \$997 m. We have managed this lower figure

In comparison to GDP, the Budget deficit out-turn figure for 1987/88 is about 9 per cent. This shows ^{an} improvement from the 1986/87 figure of 11 per cent. However, considering that the Plan target is set at 6 per cent by 1990, we are still far from reaching the target. There is therefore need for policies on the Budget to streamline expenditures, alongside policies elsewhere in the economy to stimulate growth. In the present circumstances, the low level of the Budget deficit, in absolute terms, attained in 1987/88 cannot be maintained, particularly in view of the fact that there were windfall gains on revenue in that year.

029. The budget deficit of \$896 m was financed by net foreign borrowings of \$147,8 m and net domestic borrowing of \$748,2 m. The net foreign borrowing is higher than the initial forecast of \$80,8 m, mainly due to the continued inflow of special 4% bonds as a result of the reduction in the percentage of direct remittance of dividends. The level of these inflows, however, continues to decline. The net domestic borrowing is much less than the original forecast of \$906,7 million due to the higher revenue inflows and resultant lower deficit. However, new stock issues of \$950 million as opposed to \$885 million in the previous year had to be raised at considerably higher interest rates than existing maturing stocks, increasing future service payments considerably.

030. The net result was a marginal decrease in the cumulated overdraft by \$75 m from \$395 m to \$320 m which is encouraging but far from satisfactory, unless the trend can be maintained.
031. The level of total Central Government debt, domestic and external, at \$7 billion as at June 30, 1988 and the consequent high level of service payments reflects the cumulative effects of high budget deficits over the past eight years. Thus, of the total Constitutional and Statutory Expenditure of \$773 m in 1987/88, about \$630 m or 16 per cent of total recurrent expenditure, was attributable to interest payments. In addition, total capital repayments amounted to \$470 m.
032. Whilst as at June 30, 1980, foreign debt constituted only 21,9% of total Central Government debt, this has now risen to 40% as at June 30, 1988. The actual stock of Public Foreign debt excluding contingent liabilities in respect of loans for parastatals, etc has in fact increased by more than sixfold during the period from Z\$364 m to Z\$2,8 billion. Although the foreign debt service ratio, in relation to exports, has now fallen from a peak of about 35 per cent in 1987 to an estimated 30 per cent in 1988, the situation continues to give cause for concern, seen against total debt service obligations and inadequate economic expansion.

033. Total debt has increased at an average rate of 20% per annum over the same period, whilst service payments increased nine-fold during the period and as a percentage of revenue, from 10,4% in 1980 to 17,2% in 1988 indicating that much of the borrowed funds might not have gone into direct revenue-generating sectors. It is necessary that future borrowing be concentrated on projects and sectors that generate sufficient revenue and foreign exchange to service the debt, if the current shortages of foreign exchange are to be removed. Based on the 1987/88 Budget outturn, the situation now is such that per every dollar we spend, twenty cents is borrowed, of which five cents go to finance recurrent expenditure.

F. THE 1988/89 BUDGET

034. The 1988/89 Budget has been framed with a view to keeping growth in recurrent expenditures at a minimum and to restructuring the Budget so that it can move closer to the Plan. However, the Budget deficit I shall announce shortly, is unavoidably at an unacceptably higher level than what we achieved in 1987/88, for the following reasons : first given the existing structure of budgetary expenditures and the various services provided by Government, it has been difficult to contain recurrent expenditure levels especially following the lifting of the wage and price freeze, which had assisted in containing recurrent expenditures in 1987/88; second, contrary to the Plan, our subsidy commitments continue

to grow, third, there is a slow down in the growth in revenues, and revenue will only start to grow substantially if we can attain stable growth supported by structural changes in the economy; and fourth, with improved implementation capacity of the capital programme, it has been necessary to maintain growth in capital expenditures so that the latter can at least match levels envisaged in the Plan if we are to avoid the economy going into recession.

F.1 RECURRENT EXPENDITURE PROPOSALS

035. Recurrent expenditure in 1988/89 is estimated to amount to \$4 495 million of which \$953 million is for Constitutional and Statutory obligations. This provision is an increase of 15 percent in nominal terms over the actual recurrent spending in 1987/88. This compares with the nominal increase of 9 percent in 1987/88 which I have already referred to. In view of the salary increase which is responsible for a sizeable proportion to the total increase, the figures indicate a real effort to slow down the growth in recurrent expenditures to move to a situation where these can at least be matched by revenue. Given the structure of existing Government services, Government recognises the need to examine specific areas with a view to devising new forms of financing which limit the burden on the Exchequer. This aspect is being examined as part of the work on economic adjustment which I referred to earlier.

036. The recurrent expenditure budget, net of Constitutional and Statutory appropriations and subsidies, has been designed to maintain basic existing services and programmes. Expansion has been kept to an absolute minimum and has only been allowed in those areas where curtailment would have implied operational difficulties or deviation from fundamental government policy. In other words, only expansion which flows from completion of projects in the Public Sector Investment Programme or which arises directly from a new government policy or a new Act of Parliament has been accepted. During the year, my Ministry will continue to maintain rigid control over recurrent spending and will not entertain increases in original provisions except in cases where it is absolutely and clearly essential.
037. As I have already indicated, the general wage and salary increase on a sliding scale from 15 per cent to 2 percent up to the maximum salary of \$45 000 per annum, announced last February, is the one major factor accounting for the largest share of the increase in recurrent expenditures on goods and services in 1988/89 over the previous year. Unlike in 1987/88 when it was paid for only four months, the full impact of the increase will now be felt in the current fiscal year.
038. Turning now to the votes of Ministries, it is noted that the Recurrent Budget is dominated by the following votes:

Primary and Secondary Education, Defence, Health, and Home Affairs. Total expenditure for these four Ministries accounts for 47 per cent of total recurrent expenditure, excluding Constitutional and Statutory provisions.

039. The combined Ministries of Higher Education and of Primary and Secondary Education account for \$997 m, or 22 per cent of total recurrent expenditure exclusive of the Constitutional and Statutory items. The Ministry of Primary and Secondary Education, with an allocation of \$847 m accounts for the largest share of the voted provisions. This estimate is an increase of 12 per cent in nominal terms over the outturn on this vote in 1987/88. In addition to maintaining existing programmes, it allows for some growth in school enrolments, particularly at secondary school level where student enrolment is expected to grow significantly.

040. The Defence Vote remains the second largest recipient of expenditure allocations. The Ministry has been allocated \$768 m, an increase of 14 per cent in nominal terms over the outturn for the previous year.

Once the security situation on our borders improves, the Defence vote can be expected to impose a lesser burden on national resources.

041. The Ministry of Health has been allocated \$293 m representing a nominal increase of 2 per cent on actual expenditure in 1987/88. The need to provide the Nation with an acceptable standard of health services remains. I am satisfied that with some degree of economy and careful deployment of resources, the provision should be adequate to achieve the desired objectives.
042. I have allocated \$355 m for recurrent expenditure to the Lands, Agriculture and Rural Resettlement Vote, of which \$185 m is to cover trading losses incurred by the marketing boards. There will still be some \$170 m accumulated losses of the marketing boards, to be carried over into the next year.
043. The Transport Vote has been allocated an amount of \$263 m. This provision includes \$120 m^{for} subsidy to the National Railways of Zimbabwe to meet part of the estimated deficit of the parastatal for the year ending June 30, 1989. Also included is \$10 m to Air Zimbabwe for losses incurred by the airline. A provision of \$30 m has been made for the maintenance of roads and bridges.
044. The Ministry of Home Affairs has been allocated \$204 m. This includes \$1.8 m for the third phase of the establi-

shment of the Traffic Branch in the Police Force. The setting up of the Traffic Branch has been phased over a period of five years.

045. The vote for the Ministry of Labour, Manpower Planning and Social Welfare has been allocated an amount of \$32 m, which shows a decline from the outturn in 1987/88, excluding those elements such as technical colleges which have been transferred to other Ministries as a result of restructuring of Government Ministries. The decline has been possible because the provision for public assistance in the form of drought relief is considerably reduced, given the recent favourable seasonal conditions. However, an amount of \$5 m has been included to cover arrear obligations on drought relief supplies committed but not paid for during 1987/88.

046. Under my Ministry's Vote I have provided \$58 m for the Export Incentive Scheme. Honourable members will note that this provision is more than double last year's estimate of \$25.0 m. This is because an increased number of exporters are now using the scheme which is designed to encourage our manufacturers to turn to export markets.

F.2 PUBLIC SECTOR INVESTMENT PROGRAMME PROPOSALS

047. Turning now to the Public Sector Investment Programme, although the capacity to implement projects has improved in most areas the shortage of Foreign Exchange continues

In view of the limited resources, the capital programme has been carefully streamlined in order to allow for existing projects to be completed and for priority to be given only to those areas which are revenue generating. There is also need to keep the capital Budget at a level which can be supported by recurrent expenditures.

048. The total provision for the Public Sector Investment Programme for 1988/89, including programmes financed from own resources of parastatals is \$1395 m. This amount represents a substantial increase from the 1987/88 original allocation of \$909 m and a revised provision, taking into account supplementary estimates, of \$1103 m.
049. The primary objective of the PSIP is to promote economic growth and to generate employment through investment into revenue generating areas but the achievement of this objective is still constrained by the need to complete on-going projects. However, efforts have been made in the provision for new works to give priority to revenue generating projects. Accordingly, \$902 m or 65 per cent of the total PSIP has been allocated to on-going projects and \$494 m or 35 per cent for new works.
050. Of the total PSIP of \$1395 m, an amount of \$449 m will be financed from the own resources of parastatals Central Government financing will constitute \$946 m of which \$256 m will be from external sources in the form of grants and loans.

051. The contribution from parastatals own resources of \$449 m compares with a figure of \$309 m in 1987/88. Although there is an increase this contribution, which is about 32 per cent of the total PSIP, is still relatively low compared to the Plan target contribution of 46 per cent. As part of the programme for economic recovery, it is the intention of Government to find ways of getting parastatals to contribute more effectively to economic expansion.
052. Turning now to the allocations by vote, in view of the existing demands on security, I have allocated an amount of \$135 m for the Defence PSIP.
053. Agriculture and Land Development continue to be accorded high priority, and I have therefore allocated an amount of \$119 m or 9 per cent of the total PSIP budget. Some of the major programmes and projects to be implemented in this sector are:-

The Abattoir Rehabilitation programme for the Cold Storage Commission;
Construction of a Dairy Marketing Board Factory in Bulawayo;
The Agricultural and Rural Development Authority Estates; and
Purchase and Installation of a new ginnery and Press at Kadoma and Mutare.

Members will recall that the 1986/87 Agricultural season was affected by drought and, as a result, most farmers have not been able to repay loans granted in the season. The loans for that season have to be rescheduled and for that purpose I have allocated an amount of \$25 m.

054. The Energy Development Sector has been allocated an amount of \$96 m or 7 per cent of the total PSIP budget. The major programmes in this sector will be the generation and transmission of Electricity and Construction of dams to provide water for irrigation purposes.
055. A provision of \$61 m or 4,4 per cent of the PSIP has been made for the Transport and Communications sector. Because of financial constraints, funds have only been allocated for on-going projects which require substantial amounts. One of the major roads under construction is the Gokwe-Sengwa road which is necessary for access to the Sengwa Coal Mine.
056. An amount of \$108 m or 8 per cent of the PSIP has been allocated to the Ministry of Local Government, Rural and Urban Development for general infrastructure in rural areas and urban development. In urban areas, the provision will cater for housing and water projects, for example the Morton Jaffray water works. The provi-

our Plan objectives of raising the standards of living in those areas.

057. A provision of \$83 m or 6 per cent of the PSIP has been made for Government Participation in productive enterprises. I have already mentioned that in the provision for new works, efforts have been made to allocate funds to revenue-generating areas and the participation programme is one area that has been given priority, increasing by some \$50 m over last year's provision of \$32 m. This area is being examined as part of an overall investment strategy, to see how best Government's entrepreneurial role can be performed alongside that of the private sector.
058. The Ministry of Public Construction and National Housing has been allocated an amount of \$81 m. The provision is for construction of urban housing through Local Authorities, rural housing, Civil Service housing in provincial capitals and office accommodation. The provision of residential and office accommodation in provincial capitals is in line with our decentralisation programme.
059. The Ministry of Health has been allocated an amount of \$47 m for construction of various hospital facilities and Rural health centres. The major item of expenditure is the Family Health programme under which eight hospitals are being upgraded to district hospital level.

060. Education has been allocated a total of \$49 m for construction of secondary schools, Teachers' Colleges and facilities required at the University. The high enrolment in education since 1980 has put so much pressure for the sector as a whole because facilities are grossly inadequate to cope with the demands.

061. If the component of own resources of parastatals is excluded and net loan recoveries are included, the total capital and net lending programme amounts to \$866 m.

F.3 TOTAL EXPENDITURE AND THE BUDGET DEFICIT

062. With the recurrent budget figure of \$4495 m, and capital (excluding own resources) and net lending at \$866 m, the total expenditure programme amounts to \$5361 m. This constitutes 45 per cent of GDP as compared to 48 per cent in 1987/88, and 49 per cent in 1986/87.

063. Mr. Speaker, I now lay the Estimates of Expenditure for 1988/89 upon the Table.

064. I have already indicated that in 1987/88, there were unusual items resulting in the higher increase in revenue. I have taken this into account and, simultaneously, have also taken into account, the expected better economic performance, together with a minimum of new revenue measures which I shall announce shortly. On this basis, I estimate an increase in revenue of about 10 per cent, to \$4051 m in 1988/89. With international aid grants estimated to be about \$160 m, the total revenue and

grants figure for 1988/89 is estimated to be \$4 211 m. Given the expenditure programme which I have outlined, this gives a Budget deficit of about \$1 150 m.

065. It can be seen that this deficit, in nominal terms, is much higher than the outturn for 1987/88 of \$896 m, but in relative terms, it is constant, at about 9 per cent of GDP. The nominal increase is due to the reasons which I have already referred to with reference to levels of expenditure and growth in revenues.

F.4 FINANCING THE BUDGET DEFICIT

066. To finance the deficit, it is estimated that net foreign inflows will be \$133 m and net domestic borrowings \$1 017 m. Of the net domestic borrowings, \$663 m will come from new stock issues whilst the rest will be overdraft financing. This will have adverse implications on the level of money supply and on the rate of inflation, which is already expected to be high in 1988 following the lifting of the price and wage freeze. It will be necessary to continue a policy of strict control on money supply in order to keep the rate of inflation within manageable limits.

067. The high level of public borrowing or reliance on borrowing, particularly if the funds are not directed to revenue and foreign exchange generating areas, is self-defeating in that it will mean that a greater proportion of development resources for subsequent years is pre-empted to debt service, at the expense of growth and employment or maintenance of critical social services and infrastructure.
068. The above deficit implies that, for the fourth consecutive year running since 30th June, 1984, the level of Central Government debt will go up by at least a billion a year to more than \$8,5 billion by 30th June, 1989. I must state that these figures exclude direct parastatal borrowing, most of which is under guarantee by Government. As at 30th June, 1987 total contingent liabilities were \$2 billion and of this \$1,4 billion was external. Should the operational performance of these parastatals not improve, Central Government will be bound to honour the obligations, making the situation untenable.

F.5 REVENUE AND OTHER FINANCING MEASURES

069. Last year I indicated that it was my intention to introduce legislation so that Parliament sets maximum limits on Government's borrowing each fiscal year. Whilst the drafting of the necessary

legislation has been complex and has therefore taken longer than I had anticipated, I am now in a position to table a Bill before this House during the current session which seeks to amend certain sections of the State Loans and Guarantees Act [Chapter 176]. The effect of the proposed amendments is to limit the amounts of money that may be borrowed or guaranteed by the Minister in terms of the said Act.

070. On domestic borrowings a ceiling not exceeding 30 per cent of the total revenue received by the Exchequer during the previous fiscal year will be set and on the Government guaranteed domestic loans a ceiling not exceeding 40% of the total revenue received by the Exchequer during the previous year will be set. These ceilings have been determined taking into account performance in previous years.

The amendments seek to instil financial discipline. Once the ceilings are reached I shall have to seek Parliamentary approval to exceed the limits and this process will serve to remind Ministries and the general public of the dangers of a high deficit.

071. The specific measures which I have included in this Budget are mostly concessions with a view to stimulating investment and to alleviating income

hardships on certain categories of the community.
begin with revenue measures.

072. Mr. Speaker, the national importer of liquid fuels, NOCZIM is now operating with a good margin of profit due largely to the margin allowed to enable it to recoup losses and to the lower oil prices on world markets. NOCZIM is now in a favourable financial position and I am proposing to increase import duties on motor spirit and diesel on the basis that NOCZIM will pay these increased duties without altering the retail prices of motor spirit and diesel. I want Honourable Members and the public to understand this change quite clearly so that there is no confusion. I repeat, therefore, that there will be no price changes for motor spirit and diesel. The increases to be paid by NOCZIM will amount to 10 cents per litre of motor spirit and 5 cents per litre of diesel, and will take effect from 29th July, 1988.

073. Excise duties will be increased with effect from tomorrow on clear beer and tobacco products. The increase in respect to clear beer is 8 cents per litre, which is equal to 3 cents per reputed pint or 375ml bottle, payable by manufacturers. The increase on cigarettes is equal to 3 cents per

pack of 10 and pipe tobacco will be increased by five per cent or 34 cents per kg, also payable by manufacturers.

074. There will also be a small increase with effect from tomorrow of 1 cent per litre of aerated beverages to take account of the fact that sales tax is now included in the excise duty. Whereas sales tax would normally rise with any price increases, it remains static if the excise duty is not adjusted from time to time. It is likely that the increase which only amounts to one third of the cent per 300 ml bottle will be included in an overall price control adjustment.

075. A final point on revenue measures, Members will recall that in the statement that I made in May, 1987 as part of a package of measures to stimulate investment activity, the interest rate payable on surplus funds held by non-resident controlled organisations was reduced from 9% to 5%. These funds are held on deposit with financial institutions and the result of the interest rate reduction has been to generate substantial windfall profits for the financial institutions. It is my intention therefore to introduce a special tax in respect

solely of this windfall element in the profits of the financial institutions.

076. Mr. Speaker, I estimate that the increased revenue from the tax increases will be \$7 m in 1988/89 and there will be some unquantifiable reductions in revenue from concessions. I am relying mainly on the yields from the present taxes and rates of tax and the projected growth in the economy to produce the revenue shown in the estimates in the White Paper.

077. Mr. Speaker, a little while ago I referred to concessions. Honourable Members will, of course, be aware that we introduced a new system of taxation for individuals and new rates for companies on 1st April this year. I do not wish to alter this system at the moment in order to allow time to study how effectively the system operates but I propose to introduce some minor concessions to assist low ^{income} elderly persons and those who are supporting full-time students over 18 and up to 25 years of age, and in addition to increase the limits for pension contributions to more appropriate levels.

078. To this end I propose to give a credit of \$100 instead of the present \$50 to taxpayers who have

attained the age of 59 years prior to the commencement of a year of assessment and provided that their taxable income is less than five thousand dollars. The tax credit of \$100 is equal to an abatement of \$500 at a tax rate of 20 per cent under the old system.

079. The child credit of \$120 which at present is granted only up to the age of 18 years, will be allowed to those taxpayers who wholly maintain a student who was under the age of 25 years on the 31st March prior to the announcement of the year of assessment and who receives full-time instruction at a recognised educational institution.

080. The limits on Pension fund contributions which can be deducted for tax purposes will be increased as follows :-

(a) contributions by employees which are presently limited to \$2 400 will be allowed up to \$3 000;

(b) contributions by self-employed persons which are limited to \$3 600 will be deductible up to \$4 500; and

(c) the overall limit of \$7 200 on contributions by the employer and employee will be raised to \$9 000.

081. There are two further concessions affecting income tax. Firstly, I propose to increase the limit on deductions for staff housing from \$10 000 to \$15 000 for buildings the erection of which commenced on or after 1st April, 1988 and secondly I propose to provide for a deduction for the cost of schools and clinics on farms and mines where erection commenced on or after 1st April, 1988. The deduction will have a limit of \$100 000 per school or clinic.
082. With regard to sales tax, I am proposing with effect from 1st August, 1988, to exempt fresh fruit, in addition to other basic foodstuffs already now exempt.
083. Finally, there are two other concessional changes. Firstly an increase in the rebate for gift imports from \$30 per consignment or postal parcel to \$50 per consignment or postal parcel and secondly provision of a suspension of surtax on textbooks which are imported under a certificate issued by the Secretary for Higher Education. These changes will help reduce the cost of educational textbooks and allow a reasonable value of gifts to be imported free of duties. They will take effect as from 29th July, 1988.

084. I now turn to incentives for industry.
085. In order to encourage new investment, I propose to waive import duty and sales tax on capital equipment for new projects approved by Government. This will reduce the cost of both imported capital equipment, and equipment produced locally.
086. Under the existing Exchange Control Regulations new venture capital status and the attendant 50% dividend rights and disinvestment concessions are only granted to capital brought into Zimbabwe in the form of foreign exchange through normal banking channels or as a result of re-investment of blocked funds as may be approved by Government, in accordance with the measures which I announced in May, 1987. We have for some time been considering whether it would be appropriate to extend these rights to equity brought into the country in the form of approved plant and equipment. After careful examination, I have now authorised Exchange Control to consider applications for new venture capital status from companies ^{which} bring equity into the country in the form of plant and equipment, if they meet the necessary Exchange Control requirements.
087. Further, in order to encourage employment and investment, Government is prepared to give incentive payments based on turnover and employment creation in respect of new

projects. Details of the scheme are being worked out with technical Ministries, and will be made public as soon as possible.

088. Lastly, in order to provide a cushion against exchange rate fluctuations, Government will extend exchange risk cover from the present 6 months to a period of 5 years. A premium of 5% will be charged for the purpose.

089. Mr. Speaker, I now lay the Financial Statements for 1988 upon the Table.

G. CONCLUDING REMARKS

090. Mr. Speaker, I must now conclude. The Budget I have presented is in many respects a standstill budget; in others it is growth-oriented. It is standstill inasmuch as there are no fundamental policy reforms yet and it has not at this time proved possible to get out of the budget deficit impasse. A great deal of work on such major policy matters as investment, liberalisation of imports and structural adjustment, incomes and prices policies has been done, but a number of tasks still remain to be completed. The work is at varying stages of preparation and discussion. More especially, as I have already

mentioned, despite all efforts and relentless search, I could find no fiscal knife sharp enough, or for that matter blunt enough, to cut down expenditures at this stage on such votes as Education, Defence and subsidies. At the same time, the tax burden being already so high and pervasive, there was hardly any room for manouevre.

091. Mr. Speaker, I must underline, however, that notwithstanding these constraints and others I have not mentioned and despite the fact that anticipated policy and structural changes, now at various stages and levels of Government consideration, are yet to be agreed in response to the imperatives of investment and foreign exchange generation, in particular with a view to addressing the critical and national challenge to create employment opportunities, the Budget has embarked on a growth-oriented path. Hence the increase in the capital expenditure and the investment incentives I have outlined.

092. Mr. Speaker, in an economy such as ours, with such deeply-rooted inequitable features inherited from the past as products of the policies of former regimes, structural changes are imperative in order to effect a more equitable distribution of wealth,

incomes and services. Hence our current incomes and prices policies and the levels of our current expenditures on economic and social services which must be spread to those of our society who had largely been deprived of them. More importantly, there could be no let up on defence given our geopolitical situation.

093. In brief, Mr. Speaker, the continued high level of expenditure and high budget deficit are functions of: our socio-economic history, the exacting requirements of the multi-racial nature of our society in light of its previous differential and discriminatory services, our drive for growth with equity, and our land-locked position in an unstable Southern Africa environment. There are no quick solutions, no panaceas. Our objectives are clear, however; our vision of the future steady, and our grasp of current problems and realities firm.

094. But we must never allow our detractors, whosoever they may be, let alone allow certain elements of oppressors of yesterday, albeit a distinct minority now surreptitiously masquerading as wisemen and national benefactors, to stampede us into short-sighted or quick, ill-considered actions which blur our vision or weaken our resolve to transform the economy steadily and progressively, consolidating every inch we gain.

095. We must consolidate our political unity and underpin our hard-won freedom not by gimmicks dictated by cheap politics and opportunism but by purposefulness and realism and a steady sense of national destiny.

